

KAY COMPANY; et al v EQT PRODUCTION COMPANY; et al DEPO: JOHN BERGONZI

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IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF WEST VIRGINIA
AT CLARKSBURG

THE KAY COMPANY, LLC,
H. DOTSON CATHER, Trustee of
Diana Goff Cather Trusts, et al.,
Plaintiffs,
v. Case No. 1:13-CV-151
EQT PRODUCTION COMPANY,
a Pennsylvania corporation; et al.,
Defendants.

and
PATRICK D. LEGGETT;
KATHERINE F. LEGGETT, et al.,
Plaintiffs,
v. Case No. 1:13-CV-0004 FPS
EQT PRODUCTION COMPANY,
a Pennsylvania corporation,
Defendants.

The deposition of JOHN BERGONZI was taken pursuant to the Federal Rules of Civil Procedure in the above-entitled actions, on the 17th & 18th day of August, 2015, at the Masters Law Firm, 181 Summers Street, Charleston, Kanawha County, West Virginia, before Shelia Miller, Certified Court Reporter, duly certified by the West Virginia Supreme Court of Appeals, and Notary Public in and for the State of West Virginia.

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Witness:	Examination
John Bergonzi	5 (Masters) 277 (Masters) 270 (West)
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ALSO
PRESENT: Matthew Perry, Masters Law Firm
Jane Burkhamer, Legal Assistant

VIDEOGRAPHER: Karla Rae

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1 VIDEOGRAPHER: We are on the record now in the
2 matter of The Kay, Company, et al., versus Equity, et al.
3 Our witness today is John Bergonzi.
4 The deposition is taking place on
5 August 17, 2015, at the offices of the Masters Law Firm in
6 Charleston, West Virginia.
7 The time is now 9:34. My name is Karla
8 Rae. I am the videographer. Our court reporter today is
9 Shelia Miller. Will counsel please identify themselves
10 for the record.
11 MR. MASTERS: Marvin Masters, for plaintiff.
12 MR. KESSLER: Jack Kessler, for plaintiff.
13 MR. WEST: Kevin West, for the defendants.
14 MR. HENDRICKSON: David Hendrickson, for
15 defense.
16 VIDEOGRAPHER: Will the court reporter please
17 swear in the witness.
18 (Witness sworn.)
19 THEREUPON,
20 J O H N B E R G O N Z I,
21 after having been first administered an oath or
22 affirmation on the record by the Deposition Officer,
23 testified as follows:
24 EXAMINATION

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1 BY MR. MASTERS:
2 Q Good morning, sir.
3 A Good morning.
4 MR. MASTERS: I would like to go ahead and
5 mark that. What is our last exhibit?
6 (WHEREUPON, a document was
7 marked for purposes of identification
8 as Deposition Exhibit No. 22, a copy
9 of which is attached hereto and made
10 a part hereof.)
11 BY MR. MASTERS:
12 Q Can you state your name first?
13 A Yes, it is John, J-O-H-N, Bergonzi,
14 B-E-R-G-O-N-Z-I.
15 Q Where do you live?
16 A I live in Gibsonia, Pennsylvania.
17 Q And what is your occupation and
18 profession?
19 A I am retired.
20 Q All right, and before you retired,
21 what was your occupation and profession?
22 A I worked for EQT.
23 Q Okay, for how many years?
24 A Approximately, 33 years.

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1 Q Okay, and when did you retire?
2 A In 2010.
3 Q And since 2010, have you had any
4 -- excuse me. Since 2010, have you had any
5 responsibilities to do any work or consult with EQT?
6 A I have.
7 Q And can you describe what that has
8 entailed?
9 A I have done some work for them on
10 some royalty cases and I have done some work for them
11 on some tax issues.
12 Q Okay, and what have you done with
13 respect to royalty issues?
14 A I was involved in a previous case
15 that was filed in West Virginia and a case in
16 Virginia.
17 Q Okay, that would have been the
18 McDonald case?
19 A Yes.
20 Q And what case were you involved in in
21 Virginia?
22 A Atkins.
23 Q What was the case in Virginia about?
24 I am somewhat familiar with the McDonald case.

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1 A It is a royalty case.
2 Q Okay, was that by individuals or was
3 that a class action?
4 A I don't remember. It hasn't been
5 completed. I don't know whether they got it class
6 certified or not.
7 Q Okay, but did you know whether or not
8 it was a proposed class action or was it just
9 individuals?
10 A I believe it was proposed to be a
11 class action.
12 Q Outside of working on doing things in
13 West Virginia with respect to the McDonald case, have
14 you done anything else with respect to consultation
15 with EQT?
16 A Yes, I have done some deferred tax
17 work for them.
18 Q Can you explain what that was?
19 A Well, my role for many years at EQT
20 was the controller, and as controller, the tax
21 function answered to me, and I helped them out with
22 some issues they had around deferred taxes.
23 Deferred taxes are taxes that will
24 have to be paid in the future because of the

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1 difference between book income and taxable income.
2 Q Okay, and what is the differential
3 between book income and tax income?
4 A I am not sure I understand what you
5 mean by --
6 Q Well, deferred income, you described
7 or defined, I think, as your -- describe it again. I
8 don't want to misstate what you said.
9 A Maybe I should give you an example of
10 what --
11 Q That would work.
12 A -- deferred tax is. Depreciation on
13 the books might be straight line, which let's say you
14 have an asset that is going to last ten years. You
15 divide the cost of the asset by ten and book that each
16 year.
17 The tax rules accelerate that
18 depreciation so that you have an incentive to invest
19 capital.
20 So what they do is they give you
21 additional tax deductions in the early years, and, of
22 course, what that means is later years, you will pay
23 more taxes, and so to equalize those numbers on the
24 books versus the tax return, you book deferred taxes,

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1 which are a conceptual tax that will be reversed when
2 the book income and the tax income reverse themselves.
3 Q Okay. Did you work with anybody in
4 the last five years specifically at EQT?
5 A I am not sure what you mean by
6 specifically.
7 Q Was there a certain individual or
8 group that you worked with within the past five years?
9 A Well, for the tax issues, I worked
10 with the tax and the accounting group, and for the
11 royalty issues, I would have worked with the legal
12 folks and some of the land folks and the accounting
13 folks.
14 Q Okay. Let's go back to your history
15 at EQT.
16 A All right.
17 Q And just give me -- bring me briefly
18 the different positions that you have had over those,
19 what, 30 years?
20 A Yes. I started in approximately
21 1977, worked as an auditor for a few years, worked as
22 an accountant for a few years, and as a supervisor or
23 manager or director, ultimately the controller and
24 vice president, chief accounting officer, until 2009,

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1 and then I was vice president of finance for a year
2 before I retired.
3 Q And what were your duties and
4 responsibilities as vice president of accounting?
5 A I was the corporate chief accounting
6 officer, so I was responsible for setting accounting
7 policy across the organization, making sure that
8 internal controls were in place and were followed,
9 that the tax returns were filed, that type of thing.
10 Q Okay, and prior to -- prior to 2009,
11 I guess you were -- what were your duties and
12 responsibilities?
13 A I'm sorry if I didn't make that
14 clear. I was the controller from about 1995 through
15 2009, the controller and vice president.
16 Q Okay, so you were both controller and
17 VP for that period of time?
18 A Yeah, I think in '95 through maybe
19 around 2000, the title was controller and assistant
20 treasurer, and then after that, I think it was
21 controller and vice president.
22 Q Okay. So the duties you described
23 were for that entire period of time?
24 A Yes.

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1 Q Who did you report to?
2 A Typically, the chief financial
3 officer. That was Dave Porges for a while, Jeff
4 Spoilman for a while, and Joe Givel for a while.
5 Q And when you said CFO, CFO of which
6 corporation?
7 A EQT Corporation.
8 Q All right. Now, did you hold any
9 offices in any of the other EQT corporations, other
10 than the EQT Corp?
11 A Yes, most of them.
12 Q Okay, and when you say most of them,
13 would that include all the defendants in this case,
14 the subsidiary defendants in this case?
15 A Yes.
16 Q And who paid your salary during this
17 period of time?
18 A EQT Corporation.
19 Q Okay. Did you have specific duties
20 to each of these subsidiaries, and you are welcome to
21 look at the list.
22 I don't believe in wasting paper.
23 Can you just look at the list there and tell me, did
24 you have specific duties and responsibilities with

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1 respect to the subsidiaries?
2 A Well, first of all, let me say that I
3 never held any role at EQT Midstream Partners. That
4 was created after I left the company, so I apologize
5 for that.
6 Typically, in the corporations, I
7 would have been assistant treasurer or assistant
8 secretary. In that role, I would have made sure that
9 their accounting policies were consistent across the
10 organizations.
11 Q Okay, and how did you go about doing
12 that; that is, making sure that the accounting
13 policies and procedures were consistent across all the
14 subsidiaries?
15 A Well, typically, at least the larger
16 subsidiaries had their own accounting staffs. I would
17 interact with them on a monthly basis, and we would do
18 some testing to see that the controls that we thought
19 were in place were, in fact, in place.
20 Sometimes, in addition, because I was
21 an officer of the company, I would sign contracts on
22 behalf of one of the subsidiaries or another.
23 Q You were designated in this case to
24 answer certain questions concerning subject matter

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1 pertaining to this lawsuit, and you are aware of that,
2 correct?

3 A Yes.

4 Q Did you volunteer to answer these
5 questions, or how did it come about that you came out
6 of your retirement just for me here?

7 A Well, I have had some experience on
8 these royalty issues over the years. I participated
9 in some settlement agreements, and EQT Production
10 Company is one of our, and by our, I mean EQT
11 Corporation's largest subsidiaries and probably the
12 most significant, and so I was a little more familiar
13 with their activities, and the company contacted me
14 after the death of Rick Crites to help out with some
15 of the litigation.

16 Q Okay, and what did you do in
17 preparation for your testimony today?

18 A Well, I -- as I said, because I had
19 some familiarity when I worked for the company in the
20 area, I had some general understanding of how the
21 process worked.

22 I met with folks from revenue
23 accounting, gas measurement to review, to make sure
24 that I understood how things work now and to

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1 productions.

2 The Marcellus is a lot different in
3 that those leases typically are new releases. The
4 wells are deeper, much more prolific, much higher --
5 much higher production, much higher pressures.

6 New gathering lines were made to
7 -- were developed to handle that. That gas is
8 typically a higher quality of gas, more BTU's per MCF.
9 So that gas needed processing to get it to a level
10 that was acceptable for pipeline quality, and so that
11 is the basic difference, the smaller number of wells,
12 the higher pressure, the consistency of the gas
13 quality as opposed to the wells in the southern
14 district of the southern area in West Virginia. I
15 think that covers it.

16 Q One thing you said I wanted to make
17 sure I understood. You said the smaller number of
18 wells. Are you talking about the smaller number of
19 Marcellus wells or that the Marcellus wells have a
20 smaller number of actual wells versus the historical
21 well list that you would have? I am not sure I
22 understood that.

23 A Yes.

24 Q Do you have an estimate of the

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1 understand whether there were any changes made in the
2 process.

3 Q Okay. Had there been any changes
4 made?

5 A Probably the most significant change
6 is with the Marcellus Shale development. Those wells
7 are a significant amount of production and they have
8 their own issues and gathering lines and problems. So
9 there is a little more focus on that type of activity
10 than there was in 2010.

11 Q Okay. I hesitate to ask this
12 question at this stage of the deposition, but is there
13 any way you can briefly describe the differences in
14 the way that the Marcellus is dealt with versus the
15 previous historic gas production?

16 A Well, I will try. The gas production
17 pre-Marcellus, there is maybe -- maybe 8,000 leases in
18 West Virginia, and there are a significant amount of
19 wells and a significant variety of production levels,
20 of quality of gas, of flow pressure gathering lines
21 that all needed a lot of attention.

22 The leases and the wells were
23 developed over a hundred years and the aggregation of
24 a lot of different companies' lease activity and well

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1 percent of Marcellus wells versus the historical
2 wells?

3 A I don't. My speculation would be
4 that it would be a very small percentage of the number
5 of wells, a very large percentage of the volume of
6 production.

7 Q Okay, and how did that change things?
8 You brought that up as something different and may
9 have changed the manner in which EQT managed the
10 production, transmission, royalty.

11 I am not sure what you exactly meant.
12 I am not trying to put words in your mouth. Just what
13 did you mean by that?

14 A Yes, well, the wells are different.
15 They are much deeper. They are horizontal wells, and
16 there is a lot more volume of gas.

17 To get that gas to market, the
18 pipelines were developed. Additional processing
19 plants came on line. Pipelines were developed to
20 additional interstate pipelines so that the supply of
21 gas could move to market.

22 EQT is not the only producer of
23 Marcellus Shale gas, and so there is a lot more gas in
24 West Virginia. The whole basis differential between

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1 delivery points is different now than it was then.
2 Q Okay, but does that in any way affect
3 the manner in which you pay royalties?
4 A Oh, I apologize. No, if that is what
5 you are asking, no, I don't think so. Each lease is
6 reviewed to determine the language in it.
7 There's a lot of differences in
8 leases, and they are all looked at to determine how
9 they should be handled, whether it is Marcellus, the
10 newer leases or the older leases.
11 There is a lot of language in the
12 leases and they are all reviewed.
13 MR. MASTERS: Okay. David or Kevin, I have
14 handed Mr. Bergonzi Exhibit 22, and I think there may
15 have been some changes.
16 I mean, after doing Mr. Piccirilli's,
17 he indicated he knew certain things and he didn't know
18 certain things, so I need you to identify for me the
19 subject matter that Mr. Bergonzi is going to address.
20 MR. WEST: He will address topic one, which
21 is on page two of your notice, other than with regard
22 to G, small roman numeral four.
23 MR. MASTERS: Wait a minute. You are saying
24 he won't discuss G?

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1 MR. WEST: No, he will discuss G. He won't
2 discuss G-4, if you go to the next page, because it is
3 our position that that requires a legal conclusion,
4 and the court would have to determine what was fair
5 market value, but with that exception, he will address
6 all of one.
7 MR. MASTERS: Okay.
8 MR. WEST: He will address number two. I
9 guess he will address that conceptually. With regard
10 to how revenues are handled within EQT Corporation and
11 subsidiaries, Jimmi Sue Smith, who you have noticed to
12 depose on the 27th, will have a more granular
13 explanation as far as how those revenues flow, but
14 conceptually, --
15 MR. MASTERS: Okay.
16 MR. WEST: -- he can talk about it. Number
17 three, we would object to because we believe that that
18 requires a legal conclusion. Number four, Mr.
19 Bergonzi will testify about; number five.
20 MR. MASTERS: Wait. Let me -- okay, four,
21 I'm sorry, let's go to four.
22 MR. WEST: Four, he will testify.
23 MR. MASTERS: Okay.
24 MR. WEST: Five, he will testify. Six, he

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1 can speak to that.
2 MR. MASTERS: Okay.
3 MR. WEST: Seven, once again, that -- seven
4 and eight both are areas where he can talk about high
5 level conceptually, but as far as the details, Ms.
6 Smith will testify as to those categories.
7 MR. MASTERS: Seven and eight?
8 MR. WEST: Yes. Nine, ten and eleven, Mr.
9 Bergonzi is prepared to discuss those issues.
10 MR. MASTERS: All right.
11 MR. WEST: With regard to twelve, thirteen
12 and fourteen, we believe that those are areas -- I
13 mean, he can tell you about people that have
14 knowledge, but to the extent you have asked us to
15 identify who our witnesses and our experts are going
16 to be, we believe that that is more properly addressed
17 by the court's pre-trial order.
18 MR. MASTERS: Twelve and thirteen.
19 MR. WEST: And fourteen, where it asks
20 --
21 MR. MASTERS: Oh, yeah, I see.
22 MR. WEST: Fifteen, Mr. Bergonzi is
23 designated to testify about fifteen.
24 MR. MASTERS: Okay.

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1 MR. WEST: Sixteen, he can talk about that
2 at a high level. Really, that was an area that Mr.
3 Lancaster --
4 MR. MASTERS: Okay.
5 MR. WEST: -- addressed, as with seventeen,
6 eighteen, nineteen.
7 MR. MASTERS: When you say seventeen,
8 eighteen and nineteen, I am not sure what you are
9 referring -- I mean, what are you saying with respect
10 to them?
11 MR. WEST: Well, Mr. Lancaster testified
12 about those.
13 MR. MASTERS: Okay, I just didn't
14 understand.
15 MR. WEST: Yeah, it is the same.
16 MR. MASTERS: Okay.
17 MR. WEST: And that would be also the same
18 for twenty and twenty-one. That said, to the extent
19 that Enertia is used by EQT Production to calculate
20 royalty, Mr. Bergonzi can speak about how the royalty
21 is calculated.
22 MR. MASTERS: Okay.
23 MR. WEST: Twenty-two, Mr. Bergonzi will
24 testify. With regard to twenty-three, there have not

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1 been any liquid sales by EQT Production.

2 MR. MASTERS: So what are you saying about
3 his testifying with respect to twenty-three?

4 MR. WEST: That he would -- well, he can
5 testify that there has been none, so, yeah, I mean, we
6 can designate him, but just to alert you that his
7 testimony is likely going to be, not to put words in
8 his mouth, but there was no -- there were no sales of
9 liquids by EQT Production.

10 MR. MASTERS: You heard that, didn't you?
11 He is not putting words in your mouth.

12 MR. WEST: I am pretty confident that is
13 what he would have said anyway, so --

14 MR. HENDRICKSON: Now we can get that
15 category out of the way.

16 MR. WEST: Twenty-four, Mr. Bergonzi is our
17 designee. Twenty-five, Mr. Bergonzi, and then, I
18 mean, he has reviewed -- the remainder of the notice
19 talks about requests for production of documents.

20 MR. MASTERS: Right.

21 MR. WEST: He has reviewed the documents
22 that we have produced in response to your request for
23 production to each of the defendants, so he is
24 prepared to talk about those documents.

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1 I think I was deposed in the McDonald
2 case and helped prepare some of the responses to
3 requests for information.

4 Q Okay. When you worked at EQT, what
5 did you have to do with determining what deductions
6 would be charged to royalty owners?

7 A I am not sure I understand the
8 question.

9 Q Well, I mean, there was -- you
10 understand that there were deductions that were taken
11 from royalty, correct?

12 A Sure, sure, yes.

13 Q Did you play any part in determining
14 what particular deductions would be taken from royalty
15 owners during the period 2005 to 2010, let's say?

16 A Well, those properties in West
17 Virginia, almost every property in West Virginia, came
18 to EQT with the acquisition of Eastern States Oil and
19 Gas and Eastern States.

20 At that time, our predecessor had
21 taken royalty deductions in much the same manner that
22 EQT felt was appropriate. So there was no decision to
23 change how those royalty deductions were taken on an
24 individual well or on an individual lease basis.

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1 MR. MASTERS: Okay.

2 BY MR. MASTERS:

3 Q Do you know Mr. Piccirilli?

4 A I do.

5 Q Have you read his deposition he gave
6 in this case?

7 A I have.

8 Q Did you know Mr. Crites before he
9 passed?

10 A I did.

11 Q Have you read his deposition that he
12 gave in the McDonald case?

13 A Yes.

14 Q You indicated that you had perhaps
15 participated as a witness, or in some capacity, in the
16 McDonald case. Can you tell me what your role was in
17 that case?

18 A Yes.

19 Q Okay.

20 A When I worked for the company, we
21 entered into some settlement negotiations with
22 McDonald. I participated in those until the time that
23 I left the company, and then I participated in the
24 litigation.

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1 Q When did those purchases take place?

2 A The Eastern States acquisitions?

3 Q Right.

4 A Late in 1999. I think it closed
5 early in 2000, maybe February 15 of 2000.

6 Q Okay, and so what you are saying is
7 EQT at that time determined to continue to take the
8 deductions in the same manner and using the same
9 methodology that Eastern had used?

10 A Yes, there's a variety of wells.
11 Some of the lease language is different. There was
12 not a decision to review every lease and change the
13 calculation for the individual leases.

14 Q Was that ever done?

15 A No.

16 Q They are still doing the same thing?

17 A The wells were reviewed as a part of
18 some litigation, prior litigation by a law firm here
19 in --

20 MR. WEST: Charleston.

21 THE WITNESS: -- Charleston, and there was
22 some changes made in the payment of royalties based on
23 the Tawney decision and then the follow on with the
24 Kay litigation.

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1 BY MR. MASTERS:
2 Q Okay, who -- what law firm was that?
3 A The law firm that originally reviewed
4 the leases, Glasser -- Lewis Glasser, I believe was
5 the name of the --
6 Q Okay.
7 A -- the firm that reviewed the leases,
8 each and every lease.
9 Q And so they -- then did EQT adopt
10 their recommendations about what deductions could be
11 taken from each of the leases based on the Tawney
12 case?
13 MR. WEST: We would just object to the
14 extent that whatever advice that Lewis Glasser gave to
15 EQT is privileged.
16 I think Mr. Bergonzi can and we will
17 allow him to testify as to particular changes that
18 have been made as far as how royalty was calculated
19 since that time.
20 BY MR. MASTERS:
21 Q Let me ask it this way. I mean, I
22 don't want to -- I respect attorney-client privilege,
23 so I am not asking specifically what -- there were --
24 you agree that there were changes made in the manner

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1 in which leases, deductions were taken from leases
2 after the Tawney decision, correct?
3 A Some of the wells, yes.
4 Q And did you receive a -- did you ever
5 see a report or did EQT have a report of a list of the
6 leases and how they would be -- what deductions would
7 be appropriate from each lease?
8 MR. WEST: I will object.
9 MR. MASTERS: I am not asking -- understand
10 I am not asking him what Lewis Glasser recommended or
11 didn't recommend.
12 BY MR. MASTERS:
13 Q I am just saying did they ever make a
14 list of the lease terms or identify the leases that
15 were going to receive certain charges for specific
16 kinds of deductions versus others who may not receive
17 deductions.
18 A Well, the information that I saw was
19 that they --
20 MR. WEST: And the question is, did they
21 make a list. Just try to -- I'm sorry to intercede.
22 I just don't want him to get into any privileged
23 information.
24 The question is, and correct me if I

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1 am wrong, Marvin, the question is, did Lewis Glasser
2 provide a list with recommendations.
3 THE WITNESS: Yes.
4 BY MR. MASTERS:
5 Q Okay, and I am not asking whether you
6 adopted all their recommendations. I am just asking
7 you this.
8 From that information you received
9 and from any other considerations EQT may have had,
10 did EQT come up with a list of lessors who had leases
11 and which ones deductions could be taken from,
12 specific kinds of deductions could be taken from and
13 which ones deductions could not be taken from?
14 A Yes.
15 Q Okay, and who kept and maintained
16 those lists while you were there?
17 A Who kept the list? That would have
18 been given to someone in Revenue Accounting.
19 Q At the Land Department or over in
20 Production?
21 A I think -- well, the Revenue
22 Accounting group is in the Production company. I
23 believe they and Land Administration would have both
24 had the list. I would guess that Mike Lancaster would

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1 have also seen a list to make changes in the system.
2 Q Just common sense would seem to
3 require that once -- either at Eastern or when EQT
4 made the determination to look at this issue again, by
5 whatever means, that you would have categorized those
6 leases into this one has deductions, this does not
7 have deductions, or this has certain kinds of
8 deductions and this does not have certain kind of
9 deductions, correct?
10 A Yes.
11 Q And that would be incorporated
12 somewhere in your -- would that be incorporated into
13 your Enertia system?
14 A Yes.
15 Q Do you know what those would be
16 called? Is there a field that would identify that?
17 A Yeah, there would be a code. That
18 would have been a Mike Lancaster question, but the
19 variances in how a royalty is calculated reside within
20 the Enertia system.
21 The Enertia system was specifically
22 put in place as a land/well management system so that
23 we could -- so that we could get variations down to
24 the well level. As I said, I guess

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1 now there is some 8,000 leases and there's more wells
2 beneath that than 8,000, so Enertia is the system that
3 was put in place to be able to individually monitor
4 those differences and calculate the well level basis.
5 Q It sounds like a pretty comprehensive
6 system. Am I correct?
7 A Yes.
8 Q I want to talk to you a minute about
9 Mr. Piccirilli's role in determining the amount of
10 deductions or charges from the royalty from the
11 royalty owners, and I am just sort of letting you know
12 that I am --
13 A Okay.
14 Q You indicated you read his
15 deposition?
16 A I did.
17 Q So I am just sort of bringing that up
18 so you understand where I am coming from.
19 A Okay.
20 Q He indicated, as I recall, that he
21 and his group would come up with recommendations as to
22 what the estimation was that the gathering charges and
23 other charges, I think other charges, as well, would
24 be applied to a gathering rate and that that was

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1 submitted to Production, and then ultimately as part
2 of the consideration of the Board of Directors of the
3 corp, would ultimately have all that information in
4 front of them at some time or another. So I want to
5 first talk about in terms of production.
6 A Yes.
7 Q What information came from Mr.
8 Piccirilli's group to Production?
9 A Well, let me just talk in general
10 conceptual terms first so that it makes some sense.
11 EQT Production pays the royalties.
12 Piccirilli works for a different
13 group, and he works in the planning function, and as
14 part of the business plan cycle, the various, let's
15 call them silos of business at EQT, EQT Production,
16 EQT Gathering, EQT Energy, they all submit business
17 plans, and in that business plan, there is a rate that
18 is going to be charged for the gathering of gas to
19 EQT, back to EQT Production, and within that rate is a
20 number that is a portion that is charged back against
21 some but not all of the leases.
22 That rate, that rate is developed as
23 part of the business plan. There is some give and
24 take. The reason I mention that give and take is

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1 because you should look at the plan rate as a contract
2 between the parties for the next year of what that
3 rate is going to be.
4 So the business plan is finalized.
5 The rate that EQT Gathering charges EQT Energy, which
6 nets back to EQT Production, is calculated, and within
7 that rate is a piece that EQT Production may or may
8 not charge its royalty owners, depending on the lease
9 language. Does that answer the question for you?
10 Q Well, in a general way.
11 A Okay.
12 Q What I understand he did and his
13 group did, and I don't mean he personally did all of
14 it, but he received information from all the different
15 districts about costs of this, that and the other, and
16 then he took that information, he and his group took
17 that information and incorporated it into what they
18 determined was a proposed gathering rate and provided
19 the basis for that over to Production. Is that true
20 or not?
21 A Yes.
22 Q Okay.
23 A That is true. They calculate a rate
24 for the next year based on the actual at a certain

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1 point and suggested changes to the system for the next
2 year.
3 That rate that they charged, EQT
4 Gathering charges EQT Energy that nets back to EQT
5 Production is a cost of service rate.
6 Within that rate, Piccirilli will
7 calculate a rate that is used in some but not all of
8 the leases as a royalty deduction.
9 Q Well, I mean, if you wanted to
10 determine which leases would be charged what, you
11 could go to the list I was talking about earlier to
12 find that out, correct?
13 A Yes. All I was pointing out was that
14 rate, the cost of service rate that Piccirilli's group
15 calculates is charged on every MCF of gas that is
16 moved on behalf of EQT Production.
17 So it doesn't matter to Piccirilli's
18 group who pays, what the royalty owner pays. He is
19 calculating an overall rate that gets deducted against
20 EQT Production's production.
21 Then he is giving a conceptual number
22 to the Production company so that they may or may not
23 use that in connection with an individual lease.
24 Q I did not understand what you just

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Sheet 9 Page 33

1 said, that last thing you said, that conceptual number
2 that may or may not be calculated.
3 A Well, --
4 Q Are you saying that Production has
5 the discretion to charge somebody costs on a lease or
6 not charge it, depending on just their whims?
7 A No, under the lease language.
8 Q Okay.
9 A All I was saying is that there is a
10 rate, and you saw it on the sheets that Joe Piccirilli
11 produced, and let's say the rate, just I will pick a
12 number, \$1.50 is the all-in cost to move an EQT
13 Production molecule of gas.
14 No matter whether that has -- whether
15 the royalty owner on that particular MCF of gas, no
16 matter whether he gets the royalty deduction, EQT has
17 to pay, EQT Production has to pay that gathering
18 charge.
19 Piccirilli's group does not determine
20 which royalty owner gets a deduction and which does
21 not. He is just giving a piece of that rate, of that
22 cost of service rate.
23 He is telling EQT Production, who has
24 now agreed to a rate for the next year, he is telling

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1 them how much of that rate doesn't include some of
2 those cost of service costs. That is all he is doing.
3 Q He is telling Production --
4 A That Production company has this
5 \$1.50 rate, let's say, that they are paying to move an
6 MCF of gas in a particular district.
7 He is telling them, if I take off the
8 return, if I take off the taxes, that rate wouldn't be
9 \$1.50. It would be \$1.00. He is telling them what
10 the components are of that overall rate that EQT
11 Production Company has to pay to move that gas.
12 Q Okay, when you say components, you
13 are saying that there's various items that go into the
14 cost of service for moving the gas?
15 A Yes.
16 Q He, Piccirilli is providing them with
17 --
18 A With the detail behind it.
19 Q -- a list of that and then how much
20 it costs for each particular sub-part, correct?
21 A Right. I think you have seen that.
22 Q Right, and I think I have seen that.
23 I will get to that. I have it somewhere. Let me go
24 ahead and have this marked so we can figure it out

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1 maybe.
2 (WHEREUPON, a document was
3 marked for purposes of identification
4 as Deposition Exhibit No. 23, a copy
5 of which is attached hereto and made
6 a part hereof.)
7 BY MR. MASTERS:
8 Q Let me show you Exhibit No. 23 and
9 ask if you have seen this document before.
10 A Well, these look -- I assume I
11 haven't seen this specific document, but these look
12 like copies out of a spreadsheet that would have been
13 prepared by Piccirilli or someone in his group.
14 Q They were provided to me as being
15 files that were referenced by Mr. Piccirilli. The
16 reason I am showing you this is because I want to ask
17 you, first of all, the first -- I guess it is the
18 third page.
19 These don't have Bates numbers on
20 them. The third page of this document says, at the
21 top left says, "Brenton Gathering Cost of Service,
22 2009. Do you see that?
23 A Yes.
24 Q Cost of service is O&M, \$12 million

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1 plus; S G & A allocated, \$3.8 million plus; taxes,
2 \$508,000; with a total cost of \$16 million plus and
3 volumes of \$27 million. Then he has broken it down
4 into cents per dekatherm, right?
5 A Yes.
6 Q If we turn over to the next page,
7 there for Brenton district 2009, O&M expense detail,
8 and then it has got all the different -- I am not
9 saying all, but specific things that are made a part
10 of that, correct?
11 A Yes.
12 Q It starts out with personnel costs
13 and ends with S-C-A-D-A.
14 A SCADA.
15 Q And what is SCADA?
16 A It is a software system that helps
17 track gas through -- through the system. It helps
18 open and shut valves, that kind of thing.
19 Q Are you familiar with all these
20 specifics? It looks like there's about 20 of them, I
21 mean, like how they determine the cost of vehicles and
22 how they determine the cost of personnel and all that?
23 A Well, I am going to answer yeah, I am
24 familiar on a general basis. I wouldn't know the

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1 specifics of how many vehicles are involved or that
2 detail level, but, yeah, I am familiar with
3 conceptually what they are doing there.
4 Q Okay.
5 A These are just categories of expenses
6 that they expect for that year.
7 Q Who would be the most familiar, most
8 knowledgeable person about breaking these out?
9 A Well, the planning costs would have
10 been --
11 Q Is that Piccirilli?
12 A That would have been Piccirilli, yes.
13 He would have -- he or his group would have developed
14 the pro forma costs for the future. He would not have
15 calculated the actual, but this would be rates that
16 were, as you called them, the planned rates.
17 Q Okay, I mean, I didn't call them the
18 planned rates. These are --
19 A Well, you went through this thing of
20 this plan goes to the Board of Directors.
21 Q Oh, okay. I mean, I don't -- I don't
22 know anything about the way that your terminology, and
23 when you say planned rates, this would be a term that
24 you guys would use.

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1 A Uh-huh (yes).
2 Q Correct?
3 A Yes.
4 Q Okay, I see, and the background of
5 this, as I understood from Mr. Piccirilli, was that
6 like the environmental safety, for example, or the
7 district office expenses, those sorts of things, would
8 come from the various districts to him or his group.
9 They would then take that detail, and
10 then they would boil it down into these specific
11 categories, which then would go to Production. All of
12 this information would go to Production?
13 A It would, yes.
14 Q Then Production would do what with
15 this?
16 A Well, --
17 Q Let me -- maybe this is a simpler
18 question, because Mr. Piccirilli gave me the
19 understanding that this could go to Production.
20 Production could change these numbers if they wanted
21 to. Am I correct?
22 A Yeah, that is my -- my experience in
23 the process is basically that the Gathering group
24 would put a presentation on on what they want the cost

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1 to be for the next year, and if there were costs that
2 -- if the number in total or if there was a specific
3 project or a cost that they were uncomfortable with,
4 they would push back and say no, we would prefer to
5 not have that done.
6 For example, let's say there was some
7 discussion about a well, a well or a series of wells
8 drilled somewhere, let's say 50 miles from the closest
9 gathering line.
10 So the Production company in their
11 business plan would say, hey, we are talking about a
12 new field 50 miles away from your gathering system.
13 In the Gathering company's plan, they
14 would say, okay, we are going to have to develop a
15 line out to there; we are going to have to do things
16 to get that gas from those wells to the existing
17 gathering lines.
18 When the Gathering company puts that
19 in the plan, if the number is too significant, EQT
20 Production may say that is not what we want, that is
21 not a viable plan.
22 Q Because that could -- and I take it,
23 the reason you are saying that is because the cost of
24 getting the gas from that well to the transmission

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1 line may be more than the value for that particular
2 gas that you are developing in the field, so you want
3 to go ahead and plan that out so that it is more fair
4 to the one lessor? Is that what you are saying?
5 A Yeah, or adding an extra compressor
6 to get additional capacity may cost more on a per MCF
7 basis or a dekatherm basis than the overall economics
8 make sense.
9 So there is give and take back and
10 forth about the various plans so that everybody gets
11 comfortable with where they are going the next year.
12 That is why I mentioned that it is
13 almost a contract between the parties as to what they
14 think is a fair plan for the next year.
15 Q You are talking about between
16 Gathering and Production, what works best for the
17 overall plans for the future, as well as today?
18 A What is in everybody's best interest.
19 Q Well, that makes sense. What are the
20 documents -- I mean, first of all, does Production
21 have documents similar to these documents, which I am
22 assuming, and correct me if I am wrong, Dave or Kevin,
23 these are Piccirilli's documents, correct?
24 A I think so.

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1 Q Does Production have documents like
2 this or do you have these items broken out?
3 A The Production company may or may not
4 have seen this. They may ask for detail in areas
5 where they are concerned with the changes to the
6 costs. I don't think they would ask for, let's say
7 for property taxes.
8 I don't believe they would ask to see
9 the actual invoices from the various jurisdictions,
10 but -- and they may or may not ask --
11 Q These would be property taxes for for
12 what?
13 A For pipeline or buildings.
14 Q Okay. I think these are pretty much
15 common throughout. There's several pages of these
16 things for different districts.
17 A Yes.
18 Q How many districts are there,
19 Brenton, Weston and what is the other one?
20 A Madison. There are some other areas.
21 There's an Equitrans field services gathering system,
22 but those are the main ones.
23 Q As I understand, at the end of all
24 this process, Production with the approval of the

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1 the leases are formed.
2 Q The Land Admin group is Lancaster?
3 A No, Land Admin is not Lancaster.
4 Q Which subsidiary is Land Admin?
5 A Land Admin, I think, is EQT
6 Production. I am not really sure anymore.
7 Q Did you ever have any -- I mean, are
8 you familiar with how they do that?
9 A Well, by familiar, the lease is read
10 and reviewed and the language is used to determine
11 what is going to happen on a specific lease.
12 Q What do you mean?
13 A Well, the Production company, EQT
14 Production Company, will look at each lease and
15 determine based on the language of the lease as it
16 comes in how it is going to be treated.
17 If the lease says that no deductions
18 can ever be taken until the first third party transfer
19 point, it is handled one way.
20 If it says you can deduct any costs
21 for gathering and compression and processing, it is
22 handled a different way, based on a specific language
23 in each lease.
24 Q Okay. I mean, you are saying this,

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1 board comes up with a rate of cost for gathering
2 costs, all the costs, comes up with a rate that is
3 applied to the leases in a particular district, is
4 that correct?
5 A Well, the rates are determined on a
6 lease by lease basis. Some leases are going to have
7 different royalty calculations than others.
8 Q And under what circumstances? I
9 thought Mr. Piccirilli said they were basically the
10 same.
11 A I already told you Mr. Piccirilli
12 doesn't determine the rates that are charged to the
13 royalty owners.
14 He is just giving a conceptual rate
15 of the piece of the gathering charge that is
16 ultimately going to be deducted against EQT
17 Production's proceeds.
18 He is just telling them how much of
19 that is related to items that in some cases are
20 charged back to the royalty owner and in some cases
21 are not, but he doesn't determine that. That is
22 determined on a lease-by-lease basis.
23 Q Who makes that determination?
24 A That would be the Land Admin group as

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1 but yet, I am not sure you are familiar with -- I
2 think you indicated you are really not familiar with
3 how admin does that.
4 A An admin person -- I don't exactly
5 understand what you want me to tell you. Someone in
6 that group looks at that lease when it comes in for
7 the language related to -- actually to anything that
8 would affect that well.
9 Some leases come in that are standard
10 forms that EQT has prepared. Some leases are
11 specifically negotiated for terms. If a particular
12 term is in a lease, it is reflected in the system for
13 the payment.
14 Q Well, --
15 A And --
16 Q I'm sorry. Go ahead.
17 A I was just going to say, as I already
18 said, EQT Production, it pays the gathering charge on
19 all gas. It sells its gas at the wellhead. It gets
20 reimbursed at the wellhead.
21 Q Without deductions?
22 A EQT Production pays its -- EQT
23 Production sells its gas at a price at the wellhead
24 which reflects the market value at the wellhead.

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1 Q And how do you determine the market
2 value at the wellhead?
3 A Well, the way EQT determines market
4 value at the wellhead is by finding the first liquid
5 trading point or sales point and then deducting the
6 costs to get that gas from that liquid trading point
7 or from the wellhead to that liquid trading point.
8 Q When you say liquid trading point, I
9 am not sure what you mean by that.
10 A Typically, that is an interstate
11 pipeline connection where the pricing is transparent
12 and everybody can determine what that price is.
13 Q Is that the index prices generally?
14 A Exactly.
15 Q Okay.
16 A EQT Production always pays to have
17 that gas moved to market. EQT Energy has a contract
18 with EQT Production. EQT Energy has a contract with
19 EQT Gathering.
20 The marketing company sells the gas.
21 It pays the gathering costs to get that to market. It
22 deducts that from the proceeds and pays EQT Production
23 at the wellhead for that price. What is deducted from
24 a royalty owner at that point is determined by the

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1 individual leases.
2 Q Okay. I mean, I have read -- I have
3 read the depositions, the previous depositions of
4 pretty much -- I think I understand about all of it.
5 A Okay.
6 Q I want to make sure I understand the
7 corporate methodology in terms of who gets paid what.
8 I understand that Production or EQT Production owns
9 the leases. They would be deemed to be the lessee?
10 A Okay.
11 Q Correct?
12 A All right.
13 Q Am I correct?
14 A They are the lessee, yes.
15 Q Okay. EQT Production has entered
16 into contracts with EQT Energy so that EQT Energy
17 purchases the gas from each of these wells at the
18 wellhead?
19 A Yes.
20 Q The purchase price for the gas that
21 EQT Production receives is determined by EQT Gathering
22 and Production and other subsidiaries determining the
23 cost to move the gas and process the gas from the
24 wellhead to the interstate transmission line or where

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1 the sale takes place, the index, correct?
2 A Yes.
3 Q Index price?
4 A The index price, less that
5 contractual or planned rate to get the gas to that
6 spot.
7 Q Okay, and that cost, some of the
8 things we have been talking about here, is determined
9 by Midstream and Gathering and Energy, to some extent,
10 in determining how much it really costs to get the
11 product, that molecule as Mr. Piccirilli spoke about,
12 from the wellhead to the transmission line where the
13 index price is -- where the purchase takes place on
14 the interstate line, correct?
15 A Well, the index price is a
16 transparent point.
17 Q Right.
18 A And the deduction calculations, he
19 showed you how those calculations are done here on the
20 amount that gets charged to EQT Production.
21 Q Right. So the wellhead price,
22 though, is determined based on a price, the index
23 price minus the cost of moving and transporting and
24 processing the gas so it is acceptable at the point of

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1 sale, correct?
2 A Right.
3 Q The cost of moving the gas, --
4 A Yes.
5 Q -- that cost, as I understood from
6 Mr. Piccirilli, is an estimated cost from year-to-
7 year, correct?
8 A It is estimated. It is that plan
9 rate or that contract rate agreed upon between the
10 parties.
11 Q Okay. Is there any audit done at the
12 end of a year? Let's say from 2010 to 2011. Is there
13 an audit done in 2011 at some point to see if the
14 estimated price for moving, processing and selling the
15 gas was more or less than what it was estimated to be?
16 A No.
17 Q Is there ever -- is there ever a
18 deduction from, or let me ask the question
19 differently. Are the royalty owners ever given credit
20 for, in say the year 2011, for being overcharged their
21 deductions?
22 MR. WEST: Objection to the form of the
23 question.
24 MR. MASTERS: I am not saying they were.

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1 MR. WEST: But you may answer.

2 BY MR. MASTERS:

3 Q I am not saying they were, but I am
4 just asking hypothetically if in 2011, EQT looks at
5 the costs of moving gas and they look at it and say,
6 well, it really didn't cost us this much, there was
7 ten percent, it was really ten percent less, so we are
8 going to credit the royalty owners with that ten
9 percent?

10 A Well, on a hypothetical basis, no,
11 but let me point out, as I have already said, there
12 are no cases where the royalty owner pays the full
13 charge for gathering.

14 As Joe pointed out, Joe Piccirilli
15 pointed out to you, the number that the Production
16 company typically charges, is given to charge the
17 royalty owners is much less than the full cost, and
18 the rate basically gets readjusted every year because
19 every year in the planning process, six months of
20 actual and the previous year's information is now
21 available, and the plan is adjusted to take those
22 things into consideration.

23 So the two numbers can get a little
24 bit apart for one year, but they can't diverge for a

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1 A Yes.

2 Q When they buy that, as I understand,
3 the index price at the point of sale that month is the
4 price that EQT Energy pays for that minus the cost
5 that we have been talking about, correct?

6 A Yes.

7 Q The actual sale of that gas, as I
8 understand from reading the documents, may not really
9 take place until a later time, correct?

10 A That is possible.

11 Q I saw in there where gas is sold to
12 like Wells Fargo where there's swaps taking place,
13 correct?

14 A Swaps with EQT or --

15 Q Well, the --

16 A A swap, I normally think of as a
17 financial term. Is that what you are talking about?
18 I don't think EQT enters into any financial hedges
19 with any -- I'm sorry, you ask the questions, and I
20 will --

21 Q I am going to go through some of
22 these contracts with you here in a minute.

23 A Okay.

24 Q But the amount of money that the

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1 long period of time.

2 Q Does EQT Energy make money?

3 A It does.

4 Q How does it make money?

5 A Well, it doesn't make money by
6 selling EQT Production at the first trading point. It
7 makes money by taking risk on the gas, and by that, I
8 mean they will buy other supplies of gas.

9 They will get basis differentials by
10 moving the gas from one location to the other, another
11 location.

12 They will park gas. So they will buy
13 gas this month and they will sell it next month, take
14 the risk that the price is going up or down. They
15 will put it in storage.

16 They will pay to put it in storage to
17 try to sell it in the winter. So that is how EQT
18 Energy makes money. Typically, if EQT Energy were to
19 just have production gas, it would not make money.

20 Q As I understand from the answers to
21 interrogatories and the previous depositions, when,
22 say a month, January 2011, let's say, EQT Production
23 produces 1,000 MCF of gas at a wellhead. EQT Energy
24 buys that 1,000 MCF of gas at the wellhead, correct?

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1 lessor receives for that 1,000 MCF of gas, in this
2 hypothetical scenario I am laying out, would be the
3 amount of gas based on the index price that actually
4 reaches the point of sale?

5 A Yes.

6 Q Not the amount that is actually
7 produced at the wellhead, correct?

8 A Yes, and that is obviously because
9 that gas isn't sold at the wellhead -- I'm sorry, the
10 gas that is produced at the wellhead doesn't all make
11 it to the market. So the value of the gas at the
12 wellhead is lower than the value of the gas at sales
13 point. I can't sell an MCF of gas that never makes it
14 to the market.

15 Q The volume of gas that makes it to
16 market, that is determined by actual measurements of
17 the gas that comes out of that individual lessor's
18 well or is it based upon computations based upon how
19 much overall gas is lost in that particular district?

20 A The value of the gas that EQT sells
21 at the wellhead is based on the price that is received
22 for the gas that is delivered to an index point minus
23 the cost to get to that point.

24 MR. MASTERS: I understand that. All right,

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1 do you all want to take a little break?

2 MR. WEST: Sure.

3 (WHEREUPON, a recess was
4 taken, after which the following
5 proceedings were had.)

6 (WHEREUPON, a document was
7 marked for purposes of identification
8 as Deposition Exhibit No. 24, a copy
9 of which is attached hereto and made
10 a part hereof.)

11 BY MR. MASTERS:

12 Q I want to show you Exhibit 24, and
13 this is actually just another set of documents that
14 were produced during the Weston gathering cost of
15 service.

16 I just want to go ahead and identify
17 that as documents which would describe the cost of
18 service or portions of the cost of service for the
19 different districts for periods of, I think, 2009 up
20 to two thousand -- should be up to today actually. It
21 is 2015. Is that correct?

22 A Yes.

23 Q I want to make sure that I am clear
24 on what this is. Is this what was submitted to

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1 Q How do they do that?

2 A Well, there's a variety of methods,
3 depending on the size of the well. Newer wells or
4 more prolific wells will have automatic readers, and
5 the readings will be electronically collected and
6 brought into some systems that the company has.

7 Some of the older wells still have --
8 the word escapes me right at this minute, but
9 basically, they have a plate that has to be
10 integrated, and those wells, somebody goes out and
11 takes the chart off of, and they are sent to a company
12 that integrates them, and it gives EQT a listing
13 electronically so that they can be entered into a
14 system that collects all that information called
15 FLOCAL.

16 Q Okay, and can you describe FLOCAL for
17 me?

18 A FLOCAL is a collection system that
19 we, EQT, used to bring in the volumes and the quality
20 of the gas and measure it through to the sales meter.

21 Q Okay. I mean, okay, I understand
22 that it does that, but can you describe for me how it
23 does it?

24 A It is a software.

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1 Production by Gathering, the Gathering group, by Mr.
2 Piccirilli?

3 A Well, I can't be sure whether the
4 Production company has this exact document, this
5 detail, but this appears to be the calculation of
6 those rates.

7 Q Okay, can you tell me whether these
8 rates, as indicated on here, were adopted by
9 Production as the estimates?

10 A I believe that they were.

11 Q Okay. So I understand how the
12 volumes on the wells are measured or determined at
13 each of the lessor's wells, can you tell me, first of
14 all, which subsidiary has that responsibility?

15 A For measuring the --

16 Q Measuring.

17 A EQT Energy buys the gas, and I
18 believe -- I believe EQT Gathering measures the gas --

19 Q Okay.

20 A -- as it goes into their gathering
21 system.

22 Q And do you know how they go about
23 measuring it?

24 A Yes.

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1 Q Is there -- is it done on a
2 proportionate basis some way? You sell -- you produce
3 gas at a meter --

4 A Uh-huh (yes).

5 Q -- and it goes into a gathering
6 system that ends up, as Piccirilli described it, as
7 molecules floating around through the system.

8 How do you determine how much of the
9 gas from well one was sold versus well two, well
10 three, at a certain point?

11 A Yes, well, that is done in Enertia.
12 The sales meters are reflected in the system, and the
13 production meters are reflected in the system, and
14 Enertia has basically, let me call it a system map
15 that says these production wells will flow into this
16 sales meter, and it allocates that production that is
17 sold back to the meters behind it on a proportionate
18 basis.

19 Q Okay, and that is what I understood,
20 so you confirmed that. In terms of the amount of the
21 sales dollars, in other words, or sales prices, if
22 there -- as I understand, that is what is referred to
23 as a blended sales price. Is that for the gas?

24 A It can be, depending on what

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1 production meters flow into what gathering system and
2 back out. So if a particular series of production
3 meters can only go to one spot, that will be the price
4 they will get.
5 If the gathering system will allow it
6 to go to multiple points, then those will be blended
7 rates for that.
8 Q Okay, so it goes to a single sales
9 point for whatever wells are incorporated into this
10 sale. Then that would be the price?
11 A Right.
12 Q The index price, minus the cost of
13 service, right?
14 A Right.
15 Q If there's several sales, like in
16 reading one of the depositions, I believe there could
17 be sales to a municipality or various people or
18 purchasers, but that would be all blended and averaged
19 out based upon the volumes, and you would have a set
20 price for that particular gas sale for that particular
21 period; am I correct?
22 A Well, yeah, we blend those index
23 points together and portion it back, right, yes.
24 Q All right.

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1 A And, you know, that was some of the
2 gathering rate increases over the years are, in fact,
3 to allow the gas to go to multiple sales points so
4 that if capacity constraints or a particular pipeline
5 is curtailed or bound for some reason, that the gas
6 can be moved to another point. So it is very common
7 to have blended rates.
8 Q Okay, I mean, I understand.
9 A Uh-huh (yes).
10 Q I just want to make sure that I
11 understand that it is for a particular sale, that if
12 there's -- if one is higher than the other within a
13 certain group of wells, that they are averaged out
14 proportionately --
15 A Yes.
16 Q -- and taken back to the point of
17 sale, which would be at the wellhead in this
18 particular case, right?
19 A Yes.
20 Q I take it, Production drills the
21 wells and pays for the well?
22 A Yes.
23 Q Is EQT Energy, do they pay any part
24 of the production costs?

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1 A No.
2 Q Does EQT Gathering do anything other
3 than take care of the gathering?
4 A No -- they are compression,
5 compression and gathering, the processing of the gas,
6 all of those.
7 Q Well, I was going to ask you about
8 that, so let me sort of go through that with you. Is
9 the lessor charged for anything before the gas comes
10 out of the hole, out of the well?
11 A No.
12 Q When it comes out of the well, it is
13 charged. The lessor may or may not be charged for the
14 transportation to the point of sale, depending on, as
15 you said, the lease, correct?
16 A Right.
17 Q In addition to the gathering, which
18 has been described by you and Mr. Piccirilli and
19 probably others, other than gathering, I understand
20 there is compression, correct?
21 A Right.
22 Q And there may be processing, correct?
23 A Right.
24 Q Who determines the cost of

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1 compression first?
2 A Well, it is in these rates that you
3 have given me.
4 Q Okay, so there again, that
5 information would be supplied to Mr. Piccirilli from
6 the districts?
7 A Yes.
8 Q He and his group would put together
9 what they deem to be the cost of that, and then that
10 would go to Production?
11 A Yes.
12 Q And then Production would provide it
13 to the board as part of their overall business plan
14 for the following year, correct?
15 A Right.
16 Q Have you ever been to any of these
17 board meetings and discussed these business plans for
18 the next year?
19 A I have been in the board meetings and
20 I have been in the prep meetings. I have been in
21 both.
22 Q Okay. Describe for me what -- what
23 would go on in the prep meetings first.
24 A Well, each business unit would make a

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1 presentation, and the businesses would discuss whether
2 they were happy or satisfied is probably a better word
3 than happy.

4 Q We want to be happy, you know.

5 A We all want to be happy, but we
6 rarely are -- whether they are satisfied. You almost
7 have to go back even before that because these
8 businesses are interdependent for their plans.

9 So the Gathering company has given
10 the Marketing company and the Production company its
11 numbers just to prepare a presentation to pass on to
12 the next level.

13 That business unit is going to have
14 to sit down and look at that and make comments back to
15 the other business unit even before it gets to the
16 prep meetings.

17 So clearly that is where that first
18 round of that cost is outrageous, we are not paying
19 that, we are going to change how we plan our
20 production and we are going to do this, we are going
21 to do that to tweak those things.

22 So the first cut at that will happen
23 even before those pre-production meetings or pre-board
24 meetings.

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1 necessary to give support in case there were questions
2 on that particular presentation, they would be there.

3 Q Okay, so as I understand, it would be
4 -- the business units would be Equitable Energy or EQT
5 Energy, EQT Gathering, EQT Production. Would
6 Midstream be present?

7 A Yeah -- yes. The company, as all
8 organizations do, has changed its structure some over
9 the years, but the financial statements of a
10 corporation are done on something called segment
11 reporting, and that can be a little different than how
12 the business units are organized, but all of those
13 groups would be represented.

14 Q So the officers of those subsidiaries
15 would be present?

16 A Yes, the officers of the subsidiaries
17 would be present, but, for instance, the Production
18 company's numbers that are presented include certain
19 activities that are done by EQT Energy.

20 So if I were talking about that
21 production segment that shows up in the 10-K, those
22 numbers are a little bit different entity on a legal
23 entity basis in the actual operating company than the
24 numbers that show up in the 10-K. So that ends up

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1 They will all be cleaning that up.
2 Then at the pre-board meeting, there will be
3 presentations to try to present and justify the
4 various plans that they have.

5 If the numbers still don't look like
6 they are an acceptable business plan, they will be
7 sent back to make changes, to present things
8 differently, to explain things better, and there will
9 be a second round of pre-board meetings.

10 Then when everybody is comfortable
11 that they understand and find the plans acceptable, it
12 will be whittled down to a level that is acceptable
13 for the corporation's board.

14 That clearly is going to be at a much
15 higher level and more refined than those pre-board
16 meetings and, of course, the spreadsheets that are
17 used to populate the pre-board meetings.

18 Q Okay, the pre-board meetings, who is
19 involved in those? Who conducts those and who
20 participates in them?

21 A Well, when I was there, all the
22 corporate officers participated and the business unit
23 heads for each of the business units, and then as each
24 area was presented, the support team that was

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1 being a little confusing.

2 Q And I take it, the business units,
3 from talking to Mr. Piccirilli, within the Gathering
4 group, there would be people from other subsidiaries
5 that would participate in that, correct?

6 A Well, yes. It is just that there are
7 -- and if you look at the org chart, there might be 20
8 or 30 legal entities there, some of which are legacy
9 companies. Some were set up for activities that
10 didn't exactly lay out the way they were thought, so -

11 -

12 Q Didn't work out?

13 A Didn't work out or didn't -- isn't
14 how the business is used. For instance, you see EQT
15 Equity and EQT Gathering, that is a distinction that
16 is less significant than originally thought to be.

17 So you are not going to see a
18 president and a vice president for EQT Gathering and
19 EQT Gathering Equity as separate individuals just
20 because there is not a lot of activity.

21 Q Okay, all right, so in any event, all
22 of the subsidiaries and business units, however they
23 are comprised, will get together and discuss pre-
24 presentation to the board, what would in their

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1 collective minds constitute a proposal to the board --
2 A Yes.
3 Q -- that you think would be in the
4 best interest of the company, right?
5 A Yes.
6 Q So after you go through the pre-board
7 presentation, after you go through the pre-board
8 analysis or whatever you want to call it, what would
9 you end up with? Just generally speaking, what would
10 you end up with to take to the board?
11 A A package of slides. I don't really
12 remember the number of slides that would have been in
13 it, but a package of slides that would represent the
14 significant pieces of business throughout the
15 organization.
16 Q Would there be some of those slides
17 that would include the cost of service, numbers that
18 we have been talking about this morning here and as
19 shown on Exhibits 22 and 23?
20 A Those specific numbers, no.
21 Q Would there be anything presented to
22 the board concerning the cost of gathering, the cost
23 of compression, the cost before we go to the board?
24 A Well, it would depend on the

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1 particular meeting and the particular focus of what
2 they were trying to portray as the issues around those
3 business activities.
4 The Gathering group would have some
5 slides about initiatives. They may or may not have
6 some slides about specific cost changes.
7 They may have a slide talking about
8 the significance of downtime on major compressors one
9 year and not the next.
10 So they are going to be kind of a big
11 picture to give the board the opportunity to
12 understand why each business unit's contribution is
13 the way it is.
14 So they are not going to -- they are
15 certainly not going to be in excruciating detail.
16 Those folks are not -- that is not their role. They
17 are not executives of the company operating the
18 company. They are overseers of the company and trying
19 to see that it is a reasonable plan and it is in the
20 company's best interest.
21 They will look to see that the
22 Production company seems to be making a good return on
23 its investment, that the Gathering company is
24 performing, that the Marketing group is performing or

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1 that the Midstream group is performing. Each year is
2 going to be a different presentation.
3 Q Mr. Piccirilli indicated that the
4 numbers would be presented, at least in background
5 information, for the board.
6 A Well, we certainly -- these numbers
7 would go into numbers that show up in the board
8 presentation, but my recollection is that it would
9 have been unusual for us to review Brenton, Weston,
10 Madison, Madison Equitrans field services every year
11 on a specific slide. I am assuming what he meant is
12 that these numbers go into the numbers that go to the
13 board.
14 Q Well, the board has a right to
15 approve the plan or not approve the plan?
16 A Yes, it does, yes.
17 Q And that would include determining, I
18 take it, how much money Gathering could spend on
19 certain items, correct?
20 A Yes, I would say more that whether
21 their capital expenditures are reasonable in total or
22 are getting a particular return.
23 They are not going to have -- they
24 may have a presentation where a new compressing

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1 station is going to be put into service.
2 They are probably not going to have
3 an individual gathering line cap X. They are going to
4 have that cap X number in total.
5 They might have a number for all
6 gathering lines in total, but they are not going to
7 have excruciating detail. It would be difficult to
8 get an overview if you had that much detail.
9 Q Is it fair to say that the board
10 would depend on the various business units who are
11 responsible for determining the cost of service to do
12 that function?
13 A Yes.
14 Q But they retain the right to approve
15 or disapprove of it; is that fair?
16 A Yes, again, I am not sure that -- and
17 we are talking about the cost of service rate, not the
18 amount specifically charged to royalty owners, but
19 that rate in total, they would be more concerned about
20 the return in its entirety rather than on specific
21 costs by district.
22 Q But if they had a question, they
23 certainly could call on the president of Gathering or
24 the president of Energy to appear in front of them and

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1 explain any of that stuff, right?

2 A Absolutely. Those folks are
3 typically there, as are a small group that help
4 prepare the information so that they can give whatever
5 detail they find necessary.

6 Q Okay. Have you talked to -- did you
7 discuss with the CEO or your successor about whether
8 any of the procedures or methodologies had changed
9 since you left?

10 A No. I have not had any conversations
11 with the CEO. I did not talk with EQT's corporate
12 controller about it, but I have talked with EQT
13 Production's controller and the revenue accounting
14 folks. Those are the folks involved in the actual
15 calculation of the royalty payments on a monthly
16 basis.

17 Q I hear you saying that, but I need
18 some distinction here, because you also indicated that
19 like Land Admin would have some input into that, and I
20 am a little confused about what Production actually
21 does and what -- you know, how it actually gets
22 performed.

23 It sounds like you would almost have
24 to see the -- you can't sit here today and identify

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1 determine it on their own or they would ask someone in
2 the legal group to review it for them to put it into a
3 category in Enertia so that royalties would be paid.

4 That group is different from the
5 group that actually pays the royalties on a monthly
6 basis as a piece of internal control.

7 The Land Admin sets up lessor, puts
8 his name in the system, allows for him to be paid.
9 Somebody different is the one that calculates what
10 gets paid for them.

11 So that is why that Land Admin group
12 is different from the Revenue Accounting and the
13 Production group.

14 That Revenue Accounting group in the
15 Production takes that information, the volumes at the
16 wellhead, the proceeds from the sales, puts it into
17 the Enertia system, develops an amount for each and
18 every royalty owner.

19 That system generates a list that is
20 sent to a provider and checks are sent out to the
21 various royalty owners.

22 Q So admin, the Land Administration
23 group, --

24 A Uh-huh, yes.

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1 for me the various wells or leases, the 8,000 leases,
2 and say this many would be subject to certain kinds of
3 deductions and the other third of the leases would be
4 subject to a different kind of deduction, right?

5 A Well, how those categories -- how
6 would you -- what are the categories that you want
7 them broken down into?

8 Q Well, --

9 A I have already indicated -- well,
10 first, let me talk about what Land Admin is because I
11 have obviously confused you on that subject.

12 At one time, the land function was
13 land men who would go out, negotiate a lease with
14 someone, get it signed, and they would bring it back,
15 and there would be a Land Admin group which would
16 enter some information into the Enertia system so that
17 that royalty owner can be paid based upon the terms of
18 the lease.

19 If the Land Admin folks, the field
20 people, if they used a standard lease, the Land Admin
21 folks in the office would put that into Enertia, would
22 know how to handle that.

23 If there were some different
24 language, they either would look at that language and

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1 Q -- they are the ones that input into
2 Enertia the lease and the terms of the lease and
3 whether it is -- what type of lease it is and whether
4 they are entitled to take deductions or not take
5 deductions?

6 A Right.

7 Q Correct?

8 A Right.

9 Q And let me ask you how familiar you
10 are with that process, okay? Have you ever done it?

11 A I have not.

12 Q And have you ever reviewed -- I mean,
13 was that -- is that a part of EQT Production or is
14 that part of a different subsidiary?

15 A Well, EQT Production provides some
16 shared services to all the businesses, and if you
17 think about land and land issues, you can have those
18 in the Gathering group and you can have those in the
19 Production group because the wells, the leases on the
20 pipeline. You have leases on the right-of-ways.

21 So the Production company has a
22 shared -- has in its shared services group a Land
23 Admin group that populates Enertia, and they -- I am
24 familiar with that because for a while, I was part of

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1 the team that evaluated systems to replace how it was
2 done previously and selected Enertia, and I was
3 involved in a process where all of the leases were
4 digitized so that that group didn't have to use files
5 all the time.
6 So I am not -- I have never entered a
7 transaction. I wasn't a day-to-day user of the
8 system, but I understand its functionality and why it
9 is there.
10 Q Okay, so you say it was digitized,
11 the leases were digitized?
12 A Yes.
13 Q And were the leases characterized by
14 certain types of leases?
15 A Not the digitization, no.
16 Q But I mean, after the digitization,
17 MR. HENDRICKSON: Easy for you to say.
18 BY MR. MASTERS:
19 Q Well, in any event, after the leases
20 were digitized and in that process, were they given
21 certain classifications within -- I mean, you've got
22 8,000 of them.
23 I mean, obviously, I would assume
24 that there would be classifications given as to the

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1 types of leases. My question is then, who did the
2 classification? Was it Land Admin or was it somebody
3 else?
4 A Well, the digitization had nothing to
5 do with the classification.
6 Q I understand.
7 A The classifications would have come
8 when the Enertia system was first initiated in the
9 company, which I think would have been in 2001 or
10 2002.
11 The prior systems were a Phoenix
12 system and a J. D. Edwards system. The J. D. Edwards
13 portion was mainly outside of West Virginia, in
14 Kentucky and -- Kentucky and Virginia.
15 The Phoenix would have had some wells
16 in Kentucky, Virginia and almost every well in West
17 Virginia.
18 Those would have been entered into
19 Enertia based on the way they were paid at the time
20 that they were purchased from Eastern States. Then
21 wells from that day to today would be classified as
22 they were entered into the system.
23 Q So you are saying that the
24 classification of the wells going forward after the

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1 purchase would not have been changed?
2 It would have been -- it would only
3 be new leases that would have been characterized
4 differently? Is that what you are saying?
5 A Correct.
6 Q But when it was changed over to
7 Enertia, the classification would have been simply
8 moved from Phoenix over to Enertia with the same
9 classification?
10 A Exactly.
11 Q Then as new leases came in, those new
12 leases would be determined as to what classification
13 they had, and somebody, and I would like to know who,
14 made that determination about the new leases when the
15 new leases came in.
16 A Again, to the extent that they were
17 standard leases, that Land Admin group would determine
18 that.
19 If there was negotiated language and
20 the language wasn't clear on what to do, then
21 typically they would ask the legal group for an
22 opinion on that specific lease.
23 Q But once they got that information,
24 then it was admin -- was admin the group that would

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1 classify --
2 A Yes.
3 Q -- that based on whatever?
4 A Yes.
5 Q And enter that into Enertia?
6 A Yes, and I think -- my recollection
7 either in this case or in the McDonald deposition, and
8 I apologize, I am getting them a little confused, but
9 Mike Lancaster in his testimony would have indicated
10 there are some codes there.
11 I wouldn't call them classifications
12 as much as codes to determine where the well is and
13 what the specifics of how we are going to handle it
14 are.
15 Q Okay, well, you would almost have to
16 have codes or some kind of system to -- I mean, to pay
17 out royalties and do deductions --
18 A The system, right, exactly.
19 Q How is depreciation calculated on
20 your overall gathering systems?
21 A Well, different pieces of the system
22 are handled differently. A compressor would be a
23 straight line depreciation for book purposes and
24 accelerated for tax purposes.

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1 There are some items that are unit of
2 production, but for the most part, it is straight line
3 depreciation.
4 Q And as I understand, the royalty
5 owners or the lessors are not charged for any
6 depreciation?
7 A Right.
8 Q And does that include depreciation of
9 compression services?
10 A Right.
11 Q And does that include depreciation of
12 your gas lines, your gathering lines, your
13 transportation lines?
14 A I believe it does not, and, of
15 course, you have seen the detail there, and there
16 isn't a category for depreciation on there.
17 Q I really didn't understand exactly.
18 I probably should have asked Mr. Piccirilli more about
19 that, but it seemed to me that certain pipelines could
20 be depreciated and that a royalty owner could end up
21 within the cost -- let me start over. Is the lessor
22 charged for the cost of placement of the line?
23 A No.
24 Q Is there like a formula that is

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1 that would be part of this gathering cost, correct?
2 A Right.
3 Q And if the employee would go out and
4 assist in any way in placing the line, those internal
5 costs of that employee appearing and assisting and
6 designing or supervising or laying the pipeline, that
7 would be something that would be incorporated into the
8 cost?
9 A The cost of the pipeline, yes.
10 Q Well, in terms of the -- that would
11 be part of the cost that would show up on the cost of
12 service for the gathering, if it was a gathering line?
13 A Well, that ends up being one of the
14 things that changes how these costs are accumulated.
15 Let's say that a lot of capital is
16 -- a lot of pipe is being laid.
17 Q You might have some maintenance folks
18 diverted to doing some capital work. That would be
19 charged to capital.
20 When that project was done, those
21 people would either be reassigned to maintenance
22 activities or would have to be transferred to some
23 other activity or some other location or laid off or
24 whatever you do to maintain reasonable costs.

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1 utilized by Gathering or any of the other personnel in
2 the districts or groups in the district would follow
3 in terms of providing Mr. Piccirilli with a cost list
4 of costs that he would then incorporate into his
5 analysis to provide to Production as the cost of
6 gathering?
7 A Well, I am not exactly sure how to
8 answer that, other than to say if we were to go back
9 to your exhibit here for Weston, there are going to be
10 accounts in the general ledger for vehicle costs.
11 Somebody would have said to -- probably provided him -
12 - either he, somebody working for him, or somebody in
13 that business unit would have said, here are the
14 actual costs for six months. Here is what we think
15 the costs are going to be for the rest of this year.
16 Here is the number of vehicles that we have, they
17 increased or decreased, and that is how we are going
18 to do additional maintenance on them or we are not
19 going to do additional maintenance.
20 So he would take the actual, he would
21 extend it to the end of the year, and then he would
22 adjust it for known changes in each category.
23 Q I take it that if a EQT employee got
24 in his truck, went out and read a meter somewhere,

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1 Q Have you ever viewed a list of items
2 that would be incorporated into gathering costs?
3 A Yes, I have seen a list -- well, let
4 me say that I have seen the next step down, which is
5 the ledger accounts that support it. I would have
6 never pulled the invoices and looked at the invoices,
7 if you are asking me that.
8 Q And would Mr. Piccirilli actually see
9 or his group actually see the invoices or would they
10 receive the information from the districts in a ledger
11 form?
12 A They would receive the information in
13 ledger form. Those ledgers would have been developed
14 by that business unit's accounting folks.
15 Q And then they would -- as I
16 understand, they would get together all of the
17 different ledgers from all the different units and
18 determine a cost of service for each district,
19 correct?
20 A Right.
21 Q Now, one of the things he said was
22 that the gathering rate cost of service for EQT Energy
23 would be different from that for the royalty owners.
24 A Uh-huh (yes).

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1 Q Is that correct?
2 A Yes.
3 Q Okay, and what would be different
4 about it?
5 A Well, as I said, and this is what I
6 was trying to explain earlier. I apologize if it
7 wasn't very clear.
8 The Gathering company calculates a
9 rate, an all-in rate cost of service that it charges
10 EQT Production -- it charges EQT Energy, which charges
11 EQT Production the full amount.
12 What EQT Production charges its
13 royalty owners is its decision. As I told you, they
14 already look at each lease and determine what it
15 should be paid.
16 If the determination is that those --
17 these costs that show up on here should be deducted,
18 that is Production company's decision.
19 These are a piece of the number that
20 is the total cost of service. So you can take the
21 number on here, add return, depreciation and some
22 taxes and come to the number that the Production
23 company or any other working interest owner is going
24 to be charged for that gathering activity.

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1 what I understood he said. I thought I understood him
2 to say the gathering rate for EQT Energy was different
3 from the gathering rate for the lessors.
4 A It is, yes. It is greater.
5 Q It is greater?
6 A Yes.
7 Q And that is because the depreciation
8 rate and so forth is more?
9 A Right.
10 Q Okay, and EQT Energy then makes up
11 for that by the things it did, it does, in terms of
12 trying to make money from the resale or the storage
13 and the sale of the gas at different times, right?
14 A No. EQT Energy charges that back.
15 They deduct the gathering charge in its entirety from
16 the proceeds that it pays to the Production company.
17 Q Okay, so they never really -- EQT
18 Energy never really pays the cost of the gathering?
19 A No.
20 Q They pay EQT Production for the gas?
21 A They pay for capacity to move the gas
22 wherever it has to move from the point that it is
23 delivered into that index pricing that we were talking
24 about.

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1 So the amount that the Gathering
2 company is getting and is paid by the Marketing
3 company is the total cost of service rate, which
4 includes that return, the taxes, the depreciation.
5 Typically, the number that the
6 Production company pushes back to any royalty owners
7 that are involved is that lessor number that shows up
8 here.
9 Piccirilli's only participation in
10 that is that he is calculating that rate because he
11 has all the detail to support it.
12 He is not making a decision as to who
13 gets paid and who doesn't. That is not within that
14 operating unit's --
15 Q Are you saying that energy's cost of
16 service or gathering rate would be higher than the
17 lessor's or are you saying that you don't know?
18 A EQT Energy -- ask me the question
19 again.
20 Q Okay. There's more that goes into
21 the cost of service than gathering, correct?
22 A For the gathering rate. There's
23 gathering; there's compression.
24 Q Let me ask the question again about

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1 Q Does EQT have its own wells?
2 A EQT Production?
3 Q Yes. Do you own your own -- when I
4 say your own wells, do you own -- does EQT own its own
5 leases and drill its own leases or property?
6 A EQT Production usually has a driller
7 drill the wells.
8 Q But I mean, I am talking about do you
9 own like 100 percent of the wells, I guess is a better
10 way to ask the question.
11 A Not always.
12 Q But you do have --
13 A Pardon me?
14 Q You do have your own wells?
15 A We do have 100 percent our own wells.
16 We do have working interest in some wells, but by and
17 large, our wells are 100 percent owned by EQT
18 Production. With the J. D. Edwards system, Enertia
19 are 8-8 systems, so they are all calculated in there.
20 Q What percent of the wells that are
21 within your -- what percent of the wells are owned 100
22 percent by EQT?
23 A I can't give you that number off the
24 top of my head. It is a big percentage of the wells

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1 are 100 percent owned, in the 90's, I am sure.
2 Q Just so I am clear, because I want to
3 make sure I understand, you are saying 90 percent of
4 the wells that EQT Production owns are 100 percent
5 owned by it. But my question really goes to the
6 leasehold state that EQT owns 100 percent of the
7 production; that is, you don't have to pay royalty to
8 anybody on. That was really my question.
9 MR. WEST: I don't think he understood.
10 MR. MASTERS: I don't think he did either,
11 so I am re-asking.
12 MR. WEST: You are not limiting your
13 question to the working interest?
14 MR. MASTERS: Right.
15 MR. WEST: Okay.
16 BY MR. MASTERS:
17 Q The question is -- let me start over.
18 It is inartfully asked in the first instance. I am
19 asking you, in terms of the leasehold estate, that EQT
20 would own 100 percent of the leasehold estate plus
21 obviously own the well when it is drilled?
22 A I think that is right.
23 Q Okay, what percent would EQT own the
24 leasehold estate, as well as the well 100 percent?

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1 A I am not exactly sure.
2 MR. WEST: Are you asking are there
3 instances in which EQT owns the mineral -- the oil and
4 gas rights in fee?
5 MR. MASTERS: Yes.
6 THE WITNESS: I don't think there are. I am
7 not sure whether there are in West Virginia, whether
8 there's any in West Virginia or not.
9 BY MR. MASTERS:
10 Q That is my question. Do you know the
11 answer to that?
12 A I don't know the answer to that.
13 Q Are you familiar with what is called
14 the unaccounted for gas?
15 A Yes.
16 Q It is called line loss is one thing,
17 right, one item under there?
18 A Uh-huh (yes).
19 Q The other is compression, the amount
20 of gas used in compression or lost in compression;
21 retainage; and is there any other line loss or
22 unaccounted for gas that you understand EQT --
23 A Temperature differential, measurement
24 errors, measurement timing.

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1 Q Are you familiar with the royalty
2 statements that are sent to the lessors?
3 A I have seen them, yes.
4 Q Is there any identification on those
5 royalty statements that there is a certain amount of
6 gas utilized for any of those different things,
7 compression, line loss or any other volume deduction
8 from what is produced at the wellhead?
9 A Well, if it is a well that allows for
10 the company to deduct for company use, it will be part
11 of the deduction. If the lease allows -- a lease may
12 or may not allow for company use.
13 Q Tell me what your understanding is of
14 a lease that would or would not allow for a deduction,
15 volume deduction.
16 A I am just not familiar exactly with
17 which leases do and which don't.
18 Q Okay, but going back to my question,
19 and I will show you here maybe after lunch a lease
20 with a royalty statement, a lessor's statement of
21 royalty and the deductions that are on there.
22 Isn't it true that there's no items
23 listed on the royalty statements that identifies a
24 volume deduction?

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1 A There is not.
2 Q And was that ever -- in the various
3 meetings that you had with employees of EQT, have you
4 all ever discussed whether there should or should not
5 be?
6 A I haven't. I will note that the
7 royalty statement itself has a volume that is
8 different than the production volume.
9 To the extent that somebody asks
10 about that, that is lost and unaccounted for gas, or
11 actually it is any variation that occurs between the
12 wellhead and the sales point.
13 So if, in fact, a well produces 100
14 MCF, likely that statement is going to have a lower
15 number on it. Actually, I meant to answer in
16 dekatherms, but you get my point.
17 MR. MASTERS: Okay, all right. Do you all
18 want to take a break now for lunch?
19 MR. WEST: Sure.
20 (WHEREUPON, a recess was
21 taken for lunch, after which the
22 following proceedings were had.)
23 (WHEREUPON, a document was
24 marked for purposes of identification

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1 as Deposition Exhibit No. 25, a copy
2 of which is attached hereto and made
3 a part hereof.)
4 BY MR. MASTERS:
5 Q I am showing you Exhibit No. 25. Can
6 you identify this as an Equitable Production Company,
7 I guess now EQT Production for the period of November
8 2008?
9 A Yes.
10 Q Do you recognize this as a form that
11 was generally used by EQT Production during this time
12 period?
13 A Yes.
14 Q Okay, just going across the top of
15 that, the first column is the date, and that would be
16 for the month of November 2008?
17 A Yes.
18 Q And production type would be gas,
19 correct?
20 A Yes.
21 Q And the interest type would be
22 royalty interest?
23 A Yes.
24 Q The net price there is \$6.80. Can

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1 you show me what that is for or what that represents?
2 A Yes, that would be the portion of the
3 proceeds applicable to that lease.
4 Q Okay. Now, that would be after all
5 of the deductions and so forth were taken or what?
6 A Well, that is the rate before any
7 deductions are taken. That is our rate per dekatherm
8 before deductions.
9 Q It says net price, and so that is
10 sort of my question. What does it mean, net price?
11 A Yeah, that means it is actual net gas
12 sold, not the gas produced.
13 Q Okay. In other words, that would be
14 -- \$6.80 would be for the total amount. That wouldn't
15 be the rate per MCF. That would be the total price
16 for that interest in the gas?
17 A That is the rate per dekatherm at the
18 sales point, the first liquid trading point.
19 Q At the wellhead?
20 A No, that is the price at the first
21 liquid trading point.
22 Q The decimal interest, what is that?
23 A That is the proportional share of the
24 royalty interest that this particular -- it is the

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1 proportional share of the well that the royalty owner
2 owns.
3 So if you take that top number, which
4 I think is \$3,377.92, and multiply it by that
5 interest, you will get the \$52.78.
6 Q Okay, and then the gross revenue, the
7 gross revenue and the owner revenue, what is that?
8 A Well, if you multiply that net price
9 times the volume number, you will get the gross
10 revenues or the owner revenues.
11 Q And then it has got gross taxes and
12 what's the taxes?
13 A Yeah, that is unusual. There's not
14 many leases that have taxes paid on them, but I am
15 assuming that is some severance taxes or property
16 taxes. I am not really sure which on that particular
17 lease.
18 Q Okay. Then it shows deductions, and
19 it shows zero?
20 A Right.
21 Q And then a well net revenue owner net
22 of \$341.21, correct?
23 A Yes.
24 Q Going back to the net price, that

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1 price is what EQT Energy would have paid EQT
2 Production, correct?
3 A Well, yes.
4 Q And as we look down through the next
5 two, the prices -- the net price varies somewhat for
6 different leases for this period, but generally, the
7 same process would work with respect to each of these
8 different leases to get to the net revenue and owner -
9 - to the well net revenue and the owner net revenue,
10 right?
11 A Yes.
12 Q Okay. Over under gross deductions,
13 it shows a certain amount there, I think for well
14 510841, it is -- the total deduction was \$2,214.40,
15 and for this particular owner or lessor, it was \$34.60
16 for her portion of the interest, right?
17 A Yes.
18 Q On the next one, it shows the
19 deductions as being \$222.47. Can you tell me how that
20 was calculated, the \$222.47?
21 A The 14,238.10 multiplied by the
22 .01562500 should give you the \$222.47.
23 Q That would her proportional interest
24 or charge for that particular --

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1 A Right.
2 Q -- period?
3 A Yes, sir.
4 Q Is the rate charged for deductions
5 the same for well 841 as it is for well 842?
6 A I don't know.
7 Q Okay. So I mean, as we -- as you sit
8 here today, you can't tell me on Exhibit 25, the first
9 page, why there are -- some of the wells have
10 deductions and some of the wells do not have
11 deductions; is that fair to say?
12 A Well, yes, I have told you each lease
13 is evaluated separately. Some allow deductions. Some
14 do not.
15 It is possible that you have
16 additional charges to get, third party charges to get
17 that gas to a market position.
18 It is possible there's prior period
19 adjustments in there. I am not prepared to talk about
20 any specific lease without or well without
21 investigating it.
22 Q And when you say third party charges,
23 explain to me what you mean by that.
24 A Well, sometimes, in addition to going

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1 through EQT Production's system, it may have to go
2 through someone else's system to get to a marketable
3 location.
4 Q So if you -- if EQT documents or
5 evaluates a gathering charge and then in addition you
6 have to send it through some other gathering system,
7 is it your testimony that the lessor is required to
8 pay that charge, as well, to get it to the point of
9 sale?
10 A Well, it depends. As I said before,
11 you have to look to the language of a specific lease,
12 but if the lease allows for gathering charges to be
13 deducted, let's say the gas has to go through the
14 Cabot gathering system to get to a sales point, that
15 charge would be reflected on this statement.
16 Q Okay. So that I am understanding you
17 -- I heard what you said and I understand what you
18 said, but I want to make sure what the basis is for
19 you to say that with respect to a particular lease
20 like this one.
21 A Uh-huh (yes).
22 Q I mean, let me ask you this. Have
23 you evaluated leases for the purposes of determining
24 which leases would owe deductions and which would not

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1 insofar as EQT is concerned?
2 A No, I told you the Land Admin does
3 that.
4 Q Right, that is what I understood.
5 A Uh-huh (yes).
6 Q So you would have to do the same
7 thing that you described this morning? You would have
8 to go to the admin, Land Admin and either ask them or
9 ask for their database in order to be able to
10 determine that, right?
11 A Yes, somebody would have to pull that
12 lease and look at it.
13 Q Well, you indicated that they had
14 already done that and it was already categorized in
15 their Enertia system, correct, so that Enertia could
16 pay it, right?
17 A Right.
18 Q Now, you said taxes, that the taxes -
19 - that it was unusual to have the taxes, tax charges,
20 correct?
21 A Yes.
22 Q And, again, you cannot tell me today
23 why there are tax deductions on this particular
24 Exhibit 25?

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1 A Right. I don't know whether that
2 language of that specific lease allows it or there is
3 a mistake there. I can't tell you. It is on the
4 specific lease.
5 (WHEREUPON, a document was
6 marked for purposes of identification
7 as Deposition Exhibit No. 26, a copy
8 of which is attached hereto and made
9 a part hereof.)
10 BY MR. MASTERS:
11 Q I want to show you Exhibit 25 -- 26,
12 I'm sorry, and this is the same general form that we
13 looked at in Exhibit 25, correct?
14 A Yes.
15 Q Just going across here, it shows
16 pretty much the same type of -- well, it has got the
17 same columns, correct?
18 A Yes.
19 Q And then it has got the amount, the
20 net price of the gas, and then it has got the interest
21 ownership, and then it has got the gross volume, the
22 owner volume, gross revenue, owner revenue, gross
23 taxes, which are all zero down under taxes, and then
24 the gross deducts, owner deducts and the well net

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1 revenue and the owner net, right?
2 A Yes, sir.
3 Q And, again, you can't tell me any
4 more about the deductions that were taken from the Kay
5 Company's royalty in this period without going and
6 looking at those records, can you?
7 A That's right.
8 MR. MASTERS: 27.
9 (WHEREUPON, a document was
10 marked for purposes of identification
11 as Deposition Exhibit No. 27, a copy
12 of which is attached hereto and made
13 a part hereof.)
14 BY MR. MASTERS:
15 Q And this has some handwriting on
16 this. I guess I could have torn it out of the
17 information that you provided to us, but anyway, the
18 Dotson Cather Trust, again, same form as we looked at
19 in 25 -- I mean 25 and 26, correct?
20 A Yes.
21 Q And it shows pretty much the same
22 type of information, correct?
23 A Yes.
24 Q And it shows there that there was a

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1 Q And in this particular statement, it
2 shows a gross tax, owner tax of zero, correct?
3 A Yes.
4 Q And it shows gross deducts, owner
5 deducts as zero, correct?
6 A Yes.
7 Q And it shows the well net revenue and
8 owner net revenue, correct?
9 A Yes.
10 Q I want to go back and, again, though,
11 the volume of the 8.55 MCF would be the amount of gas
12 after deducting the unaccounted for gas?
13 A Well, I look at it the other way.
14 That is the proportionate share of the gas that is
15 sold.
16 Q Well, I was talking about the amount
17 -- true. I mean, I understand that that is the volume
18 that was --
19 A Okay.
20 Q -- sold, but in terms of the amount
21 of volume at the wellhead itself, it would be more
22 than this, correct? The 8.55 would be the amount at
23 the wellhead minus the unaccounted for gas?
24 A Right, and, of course, if you were

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1 net price. It shows the volume. It shows the
2 revenue, and it shows the gross and owner deductions
3 and the well net revenue and the owner net revenue,
4 right?
5 A Yes.
6 Q And as we discussed this morning, the
7 volume that we see here is the volume after the
8 deductions of line loss and unaccounted for gas,
9 correct?
10 A Yes.
11 (WHEREUPON, a document was
12 marked for purposes of identification
13 as Deposition Exhibit No. 28, a copy
14 of which is attached hereto and made
15 a part hereof.)
16 BY MR. MASTERS:
17 Q I want to show you Exhibit 28 and ask
18 if you can identify that as a similar form that we
19 looked at or the same form we looked at for Mr.
20 Hamric.
21 A Yes.
22 Q And it has the same type of
23 information on it, correct?
24 A Yes.

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1 looking at the volume at the wellhead, the net price
2 that you pay would be different.
3 Q And that is because you are taking
4 deductions from it, right?
5 A No, that is because nobody is going
6 to pay for gas that doesn't get to the market or can't
7 get to the market.
8 Q Okay. Did you ever review the Tawney
9 case, the decision?
10 A No.
11 Q Do you remember what --
12 A I've seen it.
13 Q Do you remember what the Supreme
14 Court said about whose duty it was --
15 A I don't. I did not have any legal --
16 I am not a legal representative of the company.
17 Q I understand.
18 A They would have reviewed that.
19 Q But you are sort of defending this as
20 if there's no duty on the part of the company to get
21 the gas to the point of sale.
22 A Well, again, I am not the person to
23 determine whether there's --
24 Q That is what I thought.

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1 A -- a duty or not.
2 Q I understand. I am just asking you
3 questions.
4 A Yes, sir.
5 Q I am asking you factual questions.
6 A Yes, sir, I am not trying to make a
7 legal determination. My understanding of that is the
8 gas is sold to an affiliate at the wellhead.
9 If you show the -- if you show the
10 volumes at the wellhead, you would have to show a
11 lower market price because it cost money to move it
12 from the wellhead to somewhere else, and if you can't
13 get those volumes somewhere else, you can't get
14 proceeds for it.
15 Q It is really worth nothing at the
16 wellhead.
17 A If you can't get it to somebody that
18 wants to buy it.
19 Q Okay.
20 A Either that or proportionately, every
21 dekatherm is worth less is probably a better way to
22 say it than it is worth nothing.
23 Q Well, that goes back to my question.
24 My question was simply, the volume at the wellhead was

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1 bigger than the net volume that is shown on Mr.
2 Hamric's statement, correct?
3 A Yes.
4 Q I didn't ask you whether the price
5 would be different.
6 A Okay, I have answered that.
7 Q And you haven't read the West
8 Virginia Supreme Court's decisions on that?
9 A I may have read it. I haven't made
10 any determinations, legal determinations.
11 Q So you have no opinion as to what the
12 fair market value would be at different places; is
13 that fair to say?
14 A I tried --
15 MR. WEST: Object to form. You may answer.
16 Objection; you may answer.
17 THE WITNESS: I tried to explain it before
18 and you just criticized my answer.
19 BY MR. MASTERS:
20 Q No, I just simply said if you are
21 going to -- don't you agree that the West Virginia
22 Supreme Court made a determination about who had the
23 duty and responsibility to get the gas to the
24 wellhead?

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1 A I didn't agree --
2 MR. WEST: Objection.
3 THE WITNESS: I'm sorry. I didn't agree to
4 anything. I said I read the -- I may have read the
5 opinion, but I didn't have an opinion on the opinion.
6 It is not my position to take a legal position for the
7 company.
8 BY MR. MASTERS:
9 Q So is it fair to say then that you
10 have no opinion about who has the duty and
11 responsibility to, as between the royalty owner or
12 lessor and lessee, who has the responsibility to get
13 the gas to the market?
14 MR. WEST: Objection. You may answer to
15 your knowledge.
16 THE WITNESS: Ask me the question again.
17 BY MR. MASTERS:
18 Q Is it fair to say that inasmuch as
19 you are not familiar with the West Virginia Supreme
20 Court's opinions on the issue whose responsibility it
21 is to get the gas to the market, that you have no
22 opinion as to that issue in your deposition here in
23 this case?
24 MR. WEST: Objection.

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1 THE WITNESS: My view, without making a
2 legal determination and without regard to the Tawney
3 decision, is that the proceeds of a well -- of a sale
4 are the volume that is sold, and if you look at the
5 volumes that are sold at the first liquid trading
6 point, that is a lower volume than is actually
7 produced.
8 If you look at the volumes at the
9 wellhead, then you would have to reduce the net price,
10 because there is a proportionate amount of gas that
11 didn't make it past that production meter, and a
12 person is not going to pay for that.
13 BY MR. MASTERS:
14 Q What person?
15 A Anyone -- EQT, a third party.
16 Q So it is your testimony that no gas
17 company in West Virginia is paying the index price to
18 lessors and is not paying for or not charging the
19 lessors deductions?
20 A No, that is --
21 MR. WEST: Objection.
22 BY MR. MASTERS:
23 Q Well, you just said nobody is doing
24 it; nobody would ever do that.

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Sheet 27 Page 105

1 A I apologize for making a more
2 sweeping statement. It is unlikely that you could get
3 -- first of all, you didn't ask me about royalty
4 payments.
5 You asked me about buyers. The
6 typical buyer of gas is not going to pay for gas that
7 they have not received.
8 Q How much is EQT paying per acre for
9 leaseholds for their Marcellus wells?
10 MR. WEST: Objection.
11 THE WITNESS: Do you want me to --
12 MR. MASTERS: Are you putting him up for
13 this stuff?
14 MR. WEST: Well, this is not a category, the
15 amount that is being paid per acre.
16 MR. MASTERS: I will be glad to cross-
17 examine him. I just simply asked him a couple of
18 questions about those statements, and if you want to
19 put him up on whether any company or what his opinions
20 are about what somebody would pay for gas at the
21 wellhead, I mean, I will be glad to -- I will cross-
22 examine him.
23 MR. HENDRICKSON: Can I explain something
24 real quick? I think you guys are talking around each

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1 other.
2 MR. MASTERS: I am not talking around
3 anybody, Dave, no, no, huh-uh. I have done thousands
4 of depositions.
5 MR. HENDRICKSON: I know you have.
6 MR. MASTERS: I can tell when somebody is
7 inserting crap into them that I am going to ask a
8 question about.
9 MR. HENDRICKSON: I don't think he was, in
10 all due respect, Marvin. What he is saying, if there
11 is 100 MCF of gas at the wellhead and then only 90
12 make it to the first sales point, no one is going to
13 pay for the 10 that didn't make it there. That is all
14 he is saying.
15 MR. MASTERS: What does that have to do with
16 my question?
17 MR. HENDRICKSON: I thought that is what
18 your question was.
19 MR. MASTERS: No, that was not my questions.
20 MR. HENDRICKSON: Okay, then I apologize. I
21 didn't understand your question.
22 MR. MASTERS: That is an argumentative
23 statement made on the record in this case that has
24 nothing to do with what -- I was trying to point out

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1 so that somebody reviewing this record would know
2 specifically what was charged, what wasn't charged,
3 what was deducted, what wasn't deducted on the
4 statements themselves of these clients. That's it.
5 That is all I was asking.
6 THE WITNESS: I apologize if I misunderstood
7 the question, and I will try to listen closer to the
8 questions in the future.
9 MR. MASTERS: You don't have to apologize.
10 I didn't mean you had to apologize. There's nothing
11 wrong with what you did. In life, there's nothing
12 wrong with it.
13 It is just I am trying to make a
14 record. Well, I didn't really mean to, but since you
15 insist, I will put it in. Is this three copies here?
16 (WHEREUPON, a document was
17 marked for purposes of identification
18 as Deposition Exhibit No. 29, a copy
19 of which is attached hereto and made
20 a part hereof.)
21 BY MR. MASTERS:
22 Q Twenty-nine, just so you understand,
23 is just another set of statements to Mr. Leggett, and
24 there's nothing, I don't think, different about these

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1 except the amounts. So I am just -- you haven't seen
2 this before today?
3 A No.
4 Q Okay. I think you mentioned that
5 after the Tawney decision that there was some people
6 that reviewed the leases and so forth and made
7 determinations and maybe went back, and I don't know
8 exactly what you said.
9 I am just paraphrasing generally, but
10 did you have any part in that or play any part in
11 making a decision about how EQT should address the
12 Tawney decision with respect to its recordkeeping or
13 its payment of royalties and whether it should deduct
14 or not deduct from its royalty owners?
15 A I'm sorry, ask me the first part of
16 the question again.
17 Q Sure. That was a long question. As
18 I remember, earlier, you were explaining the databases
19 and how EQT after they bought Eastern, how they had
20 made changes up through a period of time.
21 A Yes.
22 Q At one point, I think after the
23 Tawney decision, I think you said there had been a
24 review of that or somebody had reviewed it.

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1 A Yes.
2 Q I don't want to know what -- I am not
3 interested in what your lawyers may have told you or
4 you read or anything from your lawyer, but did you
5 play any part in meetings or give recommendations or
6 read recommendations from the officers and employees
7 of EQT about how they were going to address Tawney?
8 A I have been at some meetings where
9 that was discussed. I wouldn't have made any
10 decisions. As I said before, we had a law firm review
11 those at the time. Did I say it was Lewis?
12 Q Glasser, I think.
13 A Glasser, and I was in some meetings
14 where there were some presentations or discussions
15 with outside and inside counsel on what to do, but I
16 didn't have a part in the decision making process.
17 Q Okay. Were there any changes made,
18 however, to the way EQT Production or EQT Corp or
19 anyone charged lessors deductions?
20 A Yes.
21 Q Was there any memorandum sent from
22 corporate to you or others that you saw dealing with
23 that issue?
24 A There must have been at least a list

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1 from the attorneys on which ones to change, but I
2 don't recall a memorandum.
3 Q Okay, I am not interested in the one
4 from the attorneys. I am talking about -- let me just
5 ask you this. From your memory, in implementing any
6 change after the Tawney decision, what was changed?
7 A There were certain leases that no
8 deductions were taken anymore on them.
9 Q Can you identify which of those
10 leases? I mean, you, yourself, can you identify which
11 leases or categorization of leases that thereafter no
12 deductions were taken?
13 A No. I am not sure that you can,
14 other than I think a list was prepared, Mike Lancaster
15 went into the system and set those leases to not have
16 any more deductions.
17 Q Mr. Lancaster, however, was not the
18 one that made those determinations? He is just the
19 one that went in and made the changes?
20 A Right.
21 Q You didn't make any determinations
22 about which leases fell within or without, correct?
23 A Right.
24 Q In order for you to be able to tell

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1 me or anyone else which leases were determined to have
2 no deductions versus those which did have deductions,
3 you would have to look at that same list, right?
4 A Yes.
5 Q Did you ever see a categorization of
6 leases? For example, did you ever see a list at the
7 wellhead, a kind of lease designation?
8 If you are categorizing something,
9 you are aware that a lot of leases have so much
10 royalty, usually 1/8th at the wellhead or words to
11 that effect, correct?
12 A Uh-huh (yes).
13 Q That is one category. Did you ever
14 see that lease categorized in your system anywhere?
15 A I am not sure I understand the
16 question.
17 Q Let me re-ask it then. There are
18 certain leases that originally were flat rate that
19 were converted by statute to a 1/8th?
20 A After they were re-completed? Is
21 that what you mean?
22 Q Yeah, after there was work done on
23 them or something.
24 A Right.

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1 Q Did you ever see a categorization of
2 leases that had been converted by statute?
3 A No.
4 Q Is it fair to say you are not
5 familiar with the categories of leases that would have
6 been determined to be subject to paying deductions or
7 being charged deductions versus those which were not?
8 A Well, my recollection is that the law
9 firm made a legal determination. I am familiar that
10 they were looking at certain leases that will remain
11 silent as to deductions versus ones that specifically
12 allowed deductions. I think there were some other
13 legal determinations made.
14 Q Well, that is somewhat helpful, but
15 my question really went to your personal knowledge as
16 we sit here and doing this deposition.
17 A Yes.
18 Q Can you categorize your leases
19 yourself, the types of leases that would fall in or
20 without a deduction?
21 A Again, if a lease specifically
22 allowed any charges or some charges, that is easy
23 enough to identify.
24 Clearly, the company took the

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1 position that proceeds leases that were silent could
2 no longer get deductions.

3 There were other categories --
4 anything that wasn't a proceeds list, there was
5 further review by the outside and inside attorneys.

6 Q Let me ask you again. Have you told
7 me what you recall today as being perhaps -- I don't
8 think you know exactly how those leases were treated
9 except the ones that said, okay, you can deduct.
10 Obviously, you said that those, you could take
11 deductions.

12 A Well, I am not exactly sure what you
13 are asking me. Any leases that were reviewed and were
14 determined that we should no longer take deductions,
15 they were changed in the system.

16 Q Who told you that?

17 A We got a list. I am not sure who
18 prepared it, whether it was the outside or inside
19 counsel, but they gave us a list of the wells through
20 that evaluation that Lewis Glasser did of the ones
21 that those proceeds leases that they believe were
22 silent and should no longer get deductions.

23 Anything -- so if they were proceeds,
24 proceeds leases that were silent, no deductions were

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1 type of charges could be taken.

2 So if the language wasn't proceeds
3 and the language wasn't silent, they remained the way
4 they were in the system previously.

5 Q Okay. Did you partake -- let me ask
6 this first before we go on with this. You indicated
7 that you may have been in meetings where -- who was
8 involved in some of these meetings where this was
9 discussed, besides the lawyers? I am not interested
10 in the lawyers.

11 A Well, there was a significant enough
12 item, I think, many of the corporate officers were
13 there. I can't say for sure whether they all were
14 there, but many of them were there, and some of the
15 executives from the Production company. I don't
16 remember exactly which ones they would have been but
17 clearly them.

18 Q Who was the CEO at that time?

19 A The CEO of Equitable Corporation was
20 Murray Gerber.

21 Q And is Mr. Gerber still there?

22 A He is not.

23 Q Who succeeded him?

24 A David Porges.

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1 taken anymore. If they were proceeds leases that
2 specifically allowed deductions, deductions were taken
3 on those. Other wells were evaluated based on the
4 language of the leases.

5 Q Okay, but you saw -- you are not
6 saying that is the only leases that were on the list,
7 but those are the ones you remember today?

8 A Those were the ones on the list that
9 we ceased taking deductions on.

10 Q Any at all? Any of the deductions at
11 all?

12 A Any deductions at all.

13 Q I take it, there was some that they
14 were broken out and maybe you took some deductions but
15 not other deductions?

16 A There were some leases that our
17 process remained unchanged, that wherever they were in
18 the system, they remained in the system like that.

19 Q Do you know which ones those would
20 be?

21 A Any that they didn't put in as --

22 Q Proceeds?

23 A -- proceeds, silent or any lease that
24 specifically identified that gathering compression

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1 Q And is he still there?

2 A He is.

3 Q Okay. Did you or anyone in Equitable
4 meet with or consult either in writing or in person or
5 a phone call to any of your -- any other production
6 companies or gas companies about how they were going
7 to deal with the issues set forth in Tawney?

8 A I don't recall specifically who I
9 would have talked to, and we would have had some
10 conversations. The Tawney decision caught us by
11 surprise.

12 I think most, if not all, of the
13 producers were treating royalties in much the same
14 way, and so I or somebody else had conversations with
15 the other companies.

16 Q Do you know if some of the other
17 companies advised you or other officers or employees
18 of Equitable or EQT that they were going to cease
19 taking deductions?

20 A I don't remember. Again, my
21 recollection is that almost everyone was caught a
22 little flatfooted by the Tawney decision. They were
23 waiting for the Supreme Court decision to come down.

24 When it came down, almost

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1 immediately, we were sued, and the rest of the
2 producers were sued at that same time.

3 Once the suits were in place,
4 companies became a little more closed mouth on exactly
5 what they were doing and how they were going to do it.

6 Q So the answer to my question, in
7 terms of whether any of these other companies advised
8 you or EQT or any of its officers, to your knowledge,
9 they did not tell you that they were going to cease
10 taking deductions?

11 A Right, they had not made a decision
12 at the time that I would have talked to them. To my
13 knowledge, I am not really sure who did what.

14 We did see some settlements come down
15 the pike afterwards. I don't recall whose and exactly
16 what their positions were, but we did ultimately see
17 what other people were doing as we were moving towards
18 a settlement in the litigation against us.

19 MR. WEST: Can we take a short break,
20 Marvin?

21 MR. MASTERS: Oh, absolutely.

22 (WHEREUPON, a recess was
23 taken, after which the following
24 proceedings were had.)

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1 holding companies, ERI Investments. I think there was
2 a company called ERI Capital.

3 There were some other foreign
4 subsidiaries that didn't have a presence there, but
5 the operational companies, and by that, I mean those
6 that would have participated in Kentucky and West
7 Virginia and Virginia, Pennsylvania's oil and gas
8 operations, all were in that same complex.

9 Q You indicated that you were vice
10 president in regard to financial of all of those
11 subsidiaries, correct?

12 A Well, I was vice president and
13 controller, which meant that I had responsibility for
14 accounting policy across all business units.

15 Each business -- many of the business
16 units had their own accounting staff that took care of
17 the day-to-day operations.

18 Q Did -- I'm sorry, go ahead.

19 A I was just going to say EQT
20 Production has a controller. EQT Gathering does, as
21 does Midstream.

22 Q Did they report to you, though, in
23 terms of their accounting procedures and their -- is
24 that correct?

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1 BY MR. MASTERS:

2 Q Who owns the gathering lines of all
3 the companies?

4 A EQT Gathering.

5 Q Okay, and Production owns the wells?

6 A Yes.

7 Q Energy, what do they own, just
8 themselves?

9 A They are a Marketing group --
10 exactly, marketing.

11 Q They are all housed in the same
12 complex together in Pittsburgh, right?

13 A They are.

14 Q When you were vice president, tell me
15 your -- were you in the same complex of EQT there in
16 Pittsburgh, as well?

17 A Yes.

18 Q And what all subsidiaries were in
19 that complex?

20 A Well, almost all of the companies had
21 some presence there, EQT, EQT Production, EQT Energy,
22 EQT Gathering.

23 The only companies that wouldn't have
24 had a presence there would have been some of the

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1 A Yes.

2 Q Did you put together like the
3 financial information that went to the Board of
4 Directors? Did you put that together?

5 A I would have been responsible for
6 that, yes.

7 Q Would that include the tax returns
8 for Corp?

9 A Yes.

10 (WHEREUPON, a discussion
11 was had off the record.)

12 BY MR. MASTERS:

13 Q From your understanding, where did
14 the money that was paid to Energy go? I'm sorry, when
15 Energy paid Production for the gas, --

16 A Uh-huh (yes).

17 Q -- where did that money go? Did it
18 go into a bank account there in Pittsburgh or where
19 did it go?

20 A Yes.

21 Q And was that actually like a check or
22 was that an account entry or a paper transfer?

23 A It was a wire transfer into a bank
24 account.

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1 Q And then if Production was spending
2 money, I mean, was it the same bank that Production
3 put their money in or --
4 A Separate accounts but usually the
5 same bank.
6 Q And then corporate, did corporate --
7 how did it account for its money? I mean, you have
8 SEC filings that you show as the value of corporations
9 and for the stockholders' purposes. How did it
10 account for its cash and its income and net worth and
11 all of that?
12 A I am going to try to answer this with
13 I think you are asking me, EQT Corporation files a
14 consolidated financial statement.
15 So to the extent that those, most of
16 its subsidiaries are 100 percent owned, those are all
17 accumulated into one financial statement and filed as
18 a 10-K with the SEC.
19 Q Does EQT Corp have its own money?
20 A It does. It is a separate
21 corporation.
22 Q And how does it -- where does it get
23 its money?
24 A Well, the subsidiaries pay -- can pay

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1 dividends to the corporation. The corporation is
2 actually the entity that borrows money from the
3 public, so if there is a bond issue, that money comes
4 into EQT Corporation and is passed down through inter-
5 company loans.
6 So it is just like any other set of
7 companies accounted for. Separately, there's
8 receivables and payables. There's interest bearing
9 loans. There's dividends paid. There's payment for
10 expenses and fees.
11 MR. MASTERS: Okay.
12 (WHEREUPON, a document was
13 marked for purposes of identification
14 as Deposition Exhibit No. 30, a copy
15 of which is attached hereto and made
16 a part hereof.)
17 BY MR. MASTERS:
18 Q I will show you Exhibit 30, which is
19 titled, "Amended and Restated Mobley Gas Processing
20 Agreement By and Between MarkWest and EQT Energy,
21 LLC." Are you familiar with this document?
22 A Yes.
23 Q And can you describe just generally
24 what this document is?

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1 A Yes. Natural gas is basically a
2 methane product that is sold on a dekatherm basis,
3 which is pipeline quality, approximately 1,000
4 dekatherms per MCF.
5 If there's too much energy content in
6 that gas, there's heavier hydrocarbons in there,
7 butane, propane, and those need to be stripped out of
8 the natural gas stream so that the gas is pipeline
9 quality to move around the marketplace.
10 Q Okay, and so I take it that Exhibit
11 30 is an agreement between EQT Energy and MarkWest for
12 what purpose?
13 A Yes, EQT Energy, as I said, certain
14 parts of the system, particularly this Marcellus gas,
15 is what they call real wet, which means it has a whole
16 lot of BTU or dekatherm content for the volume, and
17 with the significant increases in volumes due to those
18 Marcellus wells, the company wasn't able to use the
19 same methodologies it had in the past to get the gas
20 to pipeline quality.
21 By that, I mean if you go to the
22 southern part of West Virginia, that gas is all drier
23 gas, so it doesn't need to be processed to get it down
24 to pipeline quality.

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1 In this Weston area and to a certain
2 extent Madison, there was some wet gas, and that was
3 treated by blending it down with some other gas that
4 was drier or by some smaller plants.
5 For instance, I think Dominion had
6 one where they processed the gas, I believe on a make-
7 whole basis, but there were so many volumes, new
8 volumes, EQT was interested in finding a processor to
9 strip out those heavier hydrocarbons and market them
10 to someone.
11 Q Okay, so I take it that this
12 agreement was for that purpose, right?
13 A Yes.
14 Q And how is MarkWest -- does MarkWest
15 pay money to do this, or does MarkWest pay EQT Energy
16 for the product itself?
17 A MarkWest is paid a fee for this.
18 Q Okay. Does EQT Energy get money for
19 the product, though, after it is processed?
20 A Yes.
21 Q And is all of that laid out in this
22 contract?
23 A I believe it is, yes.
24 Q Can you or can -- are there documents

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1 that identify the wells that would be feeding into a
2 processing plant where the liquids are taken off and
3 sold?

4 A Well, there's a pipeline. Are you
5 asking me whether there is a list of what wells supply
6 this --

7 Q Well, let me ask that first.

8 A I don't believe that there is.

9 Q Is there a way to determine which
10 sales of gas -- let me ask this first. If there is
11 wet gas, --

12 A Uh-huh (yes).

13 Q -- and I think most West Virginia gas
14 will be determined wet gas, just different degrees of
15 it, correct?

16 A I am not so sure that that is, in
17 fact, the case. I believe the gas in the Brenton
18 district is not, at least energy content was a wet
19 gas. I think it is pretty close to a thousand BTU per
20 MCF.

21 It is only in the more northern
22 districts that the gas is what you would call wet or a
23 lot of BTU's per MCF by dekatherms.

24 Q Well, there's two issues. One is, is

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1 A Well, I have seen the maps. It has
2 been represented to me that the gas is not processed.
3 I am not the operational guy, but I believe that to be
4 so.

5 Q All right, so is there gas production
6 in West Virginia that is processed, though, that the
7 gas -- that the byproducts are not actually sold but
8 yet are taken off the line?

9 A I believe that is so, yes.

10 Q Are you the person that could tell me
11 which sales points would require processing but yet
12 there's no plant there selling the byproducts?

13 A Well, again, I have seen maps of the
14 system that I believe have processing plants. For
15 instance, I mentioned the Dominion connection where I
16 believe gas is processed where they make EQT
17 Production whole. I believe that to be so.

18 Q Okay, so there's other agreements
19 where EQT Energy has an agreement with MarkWest or
20 MarkWest agrees to process it and there is no charge
21 for that?

22 A I don't think that is so.

23 Q You said make whole. I am not sure
24 what you mean.

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1 it wet enough that you need to have it processed,
2 compressed, in order to put it into the transmission
3 lines.

4 A Right.

5 Q And the second is, is it wet enough
6 to go to the bother of trying to convert it to liquids
7 and process the liquids and sell the liquids, correct?

8 A Right.

9 Q And are there areas in West Virginia
10 other than the northern counties you were mentioning
11 that, say in the southern -- let me start over.

12 In the southern part of the state, is
13 the gas wet enough that you still had to process and
14 take off the byproducts in order to get it down to --

15 A I don't think so.

16 Q Do you know the answer to that
17 question, because I have heard the opposite, not from
18 Equitable but from other depositions I have done, that
19 pretty much all the gas in West Virginia has to be
20 processed to some degree.

21 A I don't think that is true, and we
22 have maps of that.

23 Q Okay, all right, but are you the
24 person I should ask that question to or somebody else?

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1 A Well, when you strip the heavier
2 hydrocarbons out of the stream, that reduces the
3 volume of gas that you have, and I guess there's two
4 ways that you can handle it.

5 Maybe there's more than two ways, but
6 the two ways we see it is that additional volumes are
7 supplied back or that the gas is purchased on a
8 natural gas basis.

9 For instance, in this agreement, when
10 that gas is -- when those higher heavier hydrocarbons
11 are eliminated from the gas and that BTU content is
12 reduced, the company, the EQT Production Company, buys
13 that energy content at the natural gas price,
14 regardless of whether the pricing for the liquids is
15 higher or lower.

16 EQT Production takes the risk on that
17 -- I'm sorry, EQT Energy takes the risk on that. So
18 you've got a dekatherm of gas that comes into this
19 plant. It has got thirteen hundred BTU's for one MCF
20 of gas.

21 It goes into the processing plant.
22 Three hundred BTU's are stripped out in the form of
23 propane or butane, isobutane.

24 Those are sold. EQT Energy gets the

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1 proceeds of that and pays MarkWest a fee for that, and
2 it sends the equivalent of 300 BTU's of gas purchased
3 from EQT back to EQT as if they had bought that gas,
4 that natural gas at that place.

5 So EQT Production has, in effect,
6 sold that 300 BTU to EQT Energy at that point, and EQT
7 Energy has paid them as if that was the first liquid
8 trading point, which I think in this plant, it is TCO
9 M-2 index.

10 Q You are talking about the ones where
11 they are actually selling the product, or are you
12 talking about the ones where --

13 A I am talking about this agreement --

14 Q Okay.

15 A -- here, and in this agreement, the
16 gas, the heavier hydrocarbons are stripped out and
17 sold. EQT Energy gets the proceeds for that sale, and
18 it pays a fee for that.

19 Then EQT Energy, in turn, pays EQT
20 Production for the gas that is lost because of that
21 extraction of the heavier hydrocarbons.

22 Q Okay, but I thought you indicated a
23 little bit ago that -- I thought you indicated a
24 little bit ago that MarkWest would actually pay EQT

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1 Q In other words, --

2 A Pushes it back to the wellhead for
3 the royalty owner.

4 Q I think I understand. With respect
5 to MarkWest processing plant, EQT Energy treats that
6 as a sales point?

7 A Yes.

8 Q Then they pay EQT Production the
9 amount that MarkWest pays them or the amount of the
10 index price?

11 A The amount based on the index price
12 as it goes into that plant.

13 Q Okay, and my understanding is that
14 these plants are generally close to a transmission
15 line?

16 A Yeah, I think that is right. As the
17 gas comes out of the plant, this Mobley plant, I
18 believe, is close to or it moves to a TETCO line and
19 two bases, and the gas that doesn't make it through
20 the plant is processed at that -- is paid at that same
21 pricing.

22 Q Okay. So then are they paid, in
23 other words, is EQT Production paid for the -- let me
24 give you a hypothetical. It will be easier that way.

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1 Energy for the liquids if they sold them under this
2 agreement. That is what I thought you said.

3 A Well, --

4 Q After the processing, after the
5 processing, if they have a thousand gallons of some
6 kind of liquid product, but then they would in turn
7 pay EQT Energy for a certain percent for that product,
8 right?

9 A Right. MarkWest markets and sells
10 the gas and gives the proceeds to EQT Energy --

11 Q Okay.

12 A -- from the sale of those.

13 Q Okay. My question is, does EQT

14 Energy then -- does EQT Production pay any of the
15 proceeds that EQT Energy gets to the royalty owner?

16 A No. EQT Energy pays the Production
17 company and the Production company pays its royalty
18 owners based on the energy as if it is sold natural
19 gas.

20 Q At the wellhead?

21 A Well, they buy it as if it was, but
22 EQT Energy pays as if the pricing of it is the pricing
23 that they get as it goes into the plant, as if it was
24 sold.

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1 Let's suppose there's a thousand MCF going into the
2 Mobley plant.

3 A Okay.

4 Q It is 1,300 BTU and it has to be
5 reduced down to around a thousand, so you've got 300
6 BTU. Then there is this arrangement where MarkWest
7 replaces the gas, as I understand it, with an amount
8 in volume that is equal to 1,300 BTU instead of a
9 thousand BTU, or am I wrong about that?

10 A Well, you are wrong. They don't
11 replace the gas.

12 Q Okay.

13 A Let me try to give you a hypothetical
14 back. We've got 1,300 dekatherms going into the
15 plant. That is an energy content.

16 Regardless of whether it comes out of
17 the plant or whether it is -- whether it goes out of
18 the plant into the pipeline or whether it comes out of
19 the plant and goes into a stream of butanes and
20 propanes, regardless of that, EQT Energy is going to
21 pay for that 1,300 dekatherms at the M-2 TETCO index
22 price to EQT Production.

23 Q Okay.

24 A So the gas is treated as sold there

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1 whether it is sold into the manufacturing plant there
2 or the processing plant or whether it is coming out at
3 the other end and going into the interstate pipeline.
4 Q Okay. Of course, it can't go in
5 there at 1,300, so what you are saying is it is
6 converted back to MCF based on 1,300 dekatherms? Is
7 it converted or --
8 A Right, all the gas is sold. When you
9 get to the sales meter, all that gas is sold on an
10 energy content basis, a BTU or dekatherm, if you will.
11 It is not sold on a volumetric basis.
12 Q Okay, I understand. So EQT Energy
13 then gets the proceeds from the conversion or
14 processing out of the hydrocarbons, right?
15 A It does.
16 Q And none of that money makes its way
17 back to any of the royalty owners?
18 A That's right.
19 Q And are you the one to ask the
20 question of as to the basis of the royalty owner not
21 receiving the proceeds of the byproducts?
22 A Well, I am going to say that I
23 probably am, and that is only because I suppose
24 historically, how this works is EQT Production doesn't

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1 take the risk of the sale of the gas.
2 EQT Energy does. So, for instance, I
3 think MarkWest processes -- has a processing plant in
4 Kentucky of ours at one time that was a make-whole
5 plant where they got the proceeds of the gas from the
6 liquid hydrocarbons, and they just replaced the gas or
7 at least paid for it.
8 MarkWest got to the point where they
9 were uncomfortable taking the risk on that because
10 some months, that is a positive number; some months,
11 it is a negative number.
12 So the company has basically
13 continued that process. When it is positive or
14 negative, EQT Energy eats that, and EQT Production, it
15 merely gets paid based on the sale of a methane
16 product.
17 Q EQT Energy makes profit on the sale
18 of the liquids, doesn't it?
19 A It depends. Sometimes it does;
20 sometimes it does not.
21 Q Has there been a full year that EQT
22 Energy has not turned a profit on the sale of its
23 liquids?
24 A I think that is probably true, yes.

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1 Q Okay. How would I determine that?
2 A Well, we would have to analyze that.
3 I am sure that there are periods that it doesn't or
4 there are periods that it hasn't.
5 Whether they -- whatever time period
6 you want to look at will depend on whether you will be
7 able to find a full year or not.
8 I think in the period that this
9 litigation covers, at the beginning of the period, it
10 was a loss.
11 Currently, it is in a loss, and for
12 the most part, in the middle of the period, it was a
13 profitable business and fairly profitable.
14 Q Can you tell me why it is not
15 profitable now?
16 A The prices -- the market for the
17 higher liquid hydrocarbons are not enough to offset
18 the price of natural gas.
19 We call it the frac spread. The
20 energy content of the gas is priced differently for
21 the liquids than it is for the natural gas.
22 Q I didn't understand the last thing
23 you said. I understand you said it is priced
24 differently, but I don't understand what you mean

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1 because the liquids would be -- they are sold by the
2 gallon, aren't they?
3 A Right. What I am saying is that you
4 can't say that the energy content in a gallon of
5 propane and the equivalent energy content of natural
6 gas or methane, the pricing of those is different.
7 They are not -- it is not a situation
8 where you can say, well, it doesn't matter which one
9 you have, I don't care. They are just not the same
10 price. It is like -- it is not like going to a gas
11 station where you say I can compare the price of this
12 gas station with the price of that gas station.
13 It is more like here is the price of
14 diesel fuel, here is the price of gasoline, here is
15 the price of natural gas driven automobiles, here is
16 the price of cars that use regular gasoline.
17 The energy content and the miles-per-
18 gallon of those two doesn't always move completely in
19 sync.
20 MR. MASTERS: I understand.
21 (WHEREUPON, a document was
22 marked for purposes of identification
23 as Deposition Exhibit No. 31, a copy
24 of which is attached hereto and made

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1 a part hereof.)
2 BY MR. MASTERS:
3 Q I will show you Exhibit 31, and this
4 is dated February 25 of 2014 from EQT, I guess Energy,
5 to MarkWest, Liberty, Midstream and Resources, LLC, in
6 Denver, Colorado. Do you know Mr. Mollenkopf?
7 A I do not.
8 Q Do you know Paul Kress?
9 A I do, yes.
10 Q Who is Mr. Kress?
11 A Mr. Kress is an employee of, I
12 believe EQT either Energy or Midstream. I am not sure
13 what position he holds quite right now and whether he
14 holds the position he did back in February of 2014.
15 Q At the present time, are there any
16 other plants than the Mobley plant that is in
17 operation serving any production out of West Virginia?
18 A I believe that there are. I believe
19 there's a plant in -- the Saturn plant, a smaller
20 plant. I don't think it has been shut down at this
21 point. There might be some smaller processing done,
22 as I said, outside of EQT at the Hastings plant.
23 Q The Saturn plant, I mean, is that
24 something that -- is that plant one that EQT Energy or

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1 towards TCO, but I think it ties directly into the
2 TETCO plant.
3 Q TETCO being?
4 A Tennessee Transmission Company.
5 Q All right. This document in February
6 of 14 says, "The purpose of this letter is to
7 document EQT's request for additional 200 MMCFD of
8 increased capacity under Section 6.2 of the processing
9 agreement." I assume that is the same processing
10 agreement that would be Exhibit 30, correct?
11 A I believe so, yes.
12 Q Okay, and do you know whether this
13 was ever confirmed and whether it was ever done?
14 A I think that during the process -- I
15 don't know whether this is the specific addition to
16 the plant that they are in the process of finalizing
17 the agreement on, but I know that the company intends
18 to try to increase the capacity there.
19 Q Okay.
20 A And, again, this is one of the things
21 that I was saying at the very beginning of our
22 conversation where the Marcellus leases and wells are
23 a little bit different and have caused the company to
24 have to do some things that it had not done in the

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1 any EQT subsidiary processes gas at?
2 A Well, the reason I hesitate is
3 because it takes a long time to build these plants. I
4 think that this Mobley or Mobley plant is actually
5 five different systems set at the same location, and
6 as the gas volumes have changed and the pipelines have
7 been built, they have moved more gas to this Mobley.
8 Q And where is the Mobley plant?
9 A It is in northern West Virginia.
10 Q Do you know where?
11 A I can't remember the exact city. The
12 location is Mobley. I can show you on a map.
13 Q Do you know what counties in West
14 Virginia would be -- that gas would be transported
15 from into that plant?
16 A I couldn't name them off the top of
17 my head. Again, we have a map that we can show you
18 that shows you what is streaming into that line that
19 is going north to the Mobley plant. The Mobley plant
20 is both a compressor and a processing plant.
21 Q What transmission line does it feed
22 into?
23 A Well, for the most part, it feeds
24 into TETCO's at M-2 bases. I think it can move gas

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1 past.
2 (WHEREUPON, a document was
3 marked for purposes of identification
4 as Deposition Exhibit No. 32, a copy
5 of which is attached hereto and made
6 a part hereof.)
7 BY MR. MASTERS:
8 Q I will show you Exhibit 32. This is
9 another letter dated, this one February 7, 2012, from
10 Elise Hyland, President of Commercial Operations, EQT
11 Energy. Do you know her?
12 A Yes, I do.
13 Q And is she still with EQT?
14 A I believe that she is.
15 Q And she says to Mr. John Mollenkopf,
16 "The purpose of this letter is to document EQT's
17 request of 100 MMCFD of increased capacity."
18 So we understand, does MarkWest
19 receive gas there at this processing plant from other
20 companies besides EQT?
21 A I don't think that they do. I think
22 these plants were built for EQT.
23 Q Have they continued to build other
24 plants there since, say 2005?

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1 A I don't -- at Logansport?
2 Q Yes.
3 A I do not think so. I think --
4 Q So the ones that were there, the five
5 -- I think you said five different separate plants
6 there?
7 A At Mobley?
8 Q Right.
9 A Yes.
10 MR. MASTERS: This is 33.
11 (WHEREUPON, a document was
12 marked for purposes of identification
13 as Deposition Exhibit No. 33, a copy
14 of which is attached hereto and made
15 a part hereof.)
16 BY MR. MASTERS:
17 Q Thirty-three is a letter dated July
18 23, 2013. It is to -- I don't think we have the last
19 page of this.
20 MR. WEST: It looks like the signature page
21 is --
22 BY MR. MASTERS:
23 Q We will find those. I am sure we
24 have them somewhere, but this is to MarkWest from EQT

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1 Energy asking for 145 MCFD, correct?
2 A Right.
3 (WHEREUPON, a document was
4 marked for purposes of identification
5 as Deposition Exhibit No. 34, a copy
6 of which is attached hereto and made
7 a part hereof.)
8 BY MR. MASTERS:
9 Q I am showing you Exhibit 34, and this
10 is a letter dated June 16, 2014, from Frank Semple,
11 President and CEO, MarkWest, to EQT Energy, which is
12 titled Amended and Restated Letter Agreement Regarding
13 Mobley or Mobley. Am I pronouncing that wrong?
14 A If you go to EQT, you will find 50
15 percent say Mobley and 50 percent say Mobley. I am
16 not sure which 50 is right, but -- so you can say it
17 either way, and people will nod their head.
18 Q All right. Are you familiar with
19 this restated -- amended restated letter agreement?
20 A I am. I have seen all of these
21 agreements.
22 Q Can you tell me what this has to do
23 with and why it was entered into?
24 A All of these agreements that we are

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1 looking at are based on the fact that the Marcellus
2 volumes are increasing in significant amounts in the
3 northern part of West Virginia.
4 The gas is very wet and needs to be
5 processed, and MarkWest, in order to commit to the
6 resources necessary to build these plants needs us to
7 enter into agreements to -- basically to agree to
8 additional volumes.
9 MR. MASTERS: Thirty-five.
10 (WHEREUPON, a document was
11 marked for purposes of identification
12 as Deposition Exhibit No. 35, a copy
13 of which is attached hereto and made
14 a part hereof.)
15 BY MR. MASTERS:
16 Q Exhibit 35 is a irrevocable standby
17 letter of credit, and can you tell me what this has to
18 do with?
19 A Well, yes, MarkWest is a standalone
20 company not related to EQT, but it is not particularly
21 creditworthy.
22 In fact, I think -- I wouldn't want
23 to put a date on it, but it did go bankrupt at one
24 point, and these plants are a significant expenditure,

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1 and I think that EQT is basically helping them have
2 the opportunity to get the capital necessary to build
3 some of these plants.
4 Q Okay, so Exhibit 35 is a irrevocable
5 standby letter of credit to U.S. Bank National
6 Association, and it has beneficiary, EQT Energy, LLC,
7 advocate of MarkWest Liberty Midstream and Resources.
8 Explain what EQT Energy did here for MarkWest on March
9 18, 2014.
10 A What this is is MarkWest protecting
11 EQT Energy. Again, these plants are very expensive.
12 EQT actually holds money of theirs so
13 that -- we hold money of theirs so that each month
14 when they have sold their gas -- I'm sorry, they have
15 sold our heavy hydrocarbons, we hold some of their
16 money so that we are never -- so that if they were not
17 to pay that month, we would be able to cover it, if
18 you understand what I am saying.
19 Basically, if you understand what I
20 am saying, basically we've got a deposit on their
21 part. This is an agreement where they are protecting
22 us for \$10 million, although I think -- I think, if I
23 am not mistaken, that this is now expired, although I
24 can't be sure.

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1 Q You mean as far as today?
2 A Right.
3 Q It is expired?
4 A I think so. I can't --
5 Q It was effective at one time?
6 A It was, and, again, --
7 Q Is this to protect you or is this to
8 protect them?
9 A Protect us, I believe.
10 Q It is a letter of credit, and it is
11 U.S. Bank guaranteeing basically for \$10 million?
12 A Yes.
13 Q To you?
14 A Right.
15 Q And that \$10 million is for the
16 monies that MarkWest would receive that would be owed
17 to you for their part of the amount of money owed to
18 you from the sale of the byproducts?
19 A Right.
20 (WHEREUPON, a document was
21 marked for purposes of identification
22 as Deposition Exhibit No. 36, a copy
23 of which is attached hereto and made
24 a part hereof.)

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1 BY MR. MASTERS:
2 Q Let me show you Exhibit 36, and I
3 will give you guys one.
4 MR. WEST: Thanks.
5 BY MR. MASTERS:
6 Q Exhibit 36 is just another letter of
7 credit. It is dated August 15, 2015, correct?
8 A Yes, which is -- wow, that is -- that
9 is not very long ago.
10 Q Yeah, if you look at the last page,
11 it says January 27, 2014. I am not sure how these
12 things ended up the way they are.
13 A Yeah, that is what I was saying.
14 These --
15 Q They were produced this way, so we
16 assume --
17 A Yeah, I can't say for sure, but I
18 think that would be -- I am not sure whether that is
19 the expiration date on that or not.
20 (WHEREUPON, a document was
21 marked for purposes of identification
22 as Deposition Exhibit No. 37, a copy
23 of which is attached hereto and made
24 a part hereof.)

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1 BY MR. MASTERS:
2 Q Is Exhibit 37 a correction to an
3 irrevocable standby letter of credit?
4 A Yeah. If you look at one of these
5 two, one of them -- let me see if I can find it here.
6 One of them doesn't have --
7 Q One of them has \$10 million. Where
8 it should be \$10 million, it is actually \$1 million?
9 A Yes.
10 Q Is that what you are looking for?
11 A Yeah, yeah, in Exhibit 36.
12 Q We are not so concerned about that
13 sort of thing, but I think that is a correction.
14 (WHEREUPON, a document was
15 marked for purposes of identification
16 as Deposition Exhibit No. 38, a copy
17 of which is attached hereto and made
18 a part hereof.)
19 BY MR. MASTERS:
20 Q I will show you Exhibit 38 dated
21 April 2. Is this the same thing?
22 A I think that is a cover letter to 37.
23 Q And this is from U.S. Bank to EQT
24 Energy, again confirming the letter of credit,

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1 correct?
2 A Right.
3 Q To protect the proceeds from the
4 sale, right?
5 A Yeah. Again, as I said, MarkWest is
6 not a good credit risk, and --
7 Q I will keep that in mind.
8 A At least, that is the judgement of
9 EQT.
10 Q We won't pass that around to anybody.
11 Here you go. This is what?
12 COURT REPORTER: 39.
13 (WHEREUPON, a document was
14 marked for purposes of identification
15 as Deposition Exhibit No. 39, a copy
16 of which is attached hereto and made
17 a part hereof.)
18 BY MR. MASTERS:
19 Q I am showing you 39, and this is
20 titled, "General Terms and Conditions Between EQT
21 Energy and MarkWest," dated December 20, 2012. Can
22 you tell me what this is?
23 A Yeah, all of these are related to the
24 processing plant, I believe, at Mobley.

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1 (WHEREUPON, a document was
2 marked for purposes of identification
3 as Deposition Exhibit No. 40, a copy
4 of which is attached hereto and made
5 a part hereof.)
6 BY MR. MASTERS:
7 Q Let me show you Exhibit 40, which is
8 titled, "Amendment No. 1 to Logansport Gas Processing
9 Agreement and Letter Agreement Regarding Logansport
10 Compressor Station," as between MarkWest Liberty
11 Midstream and Resources, LLC, and EQT Energy, LLC,
12 September 27, 2011. Can you identify this for me?
13 A Yes, these agreements are all related
14 to the processing of natural gas.
15 Q Where is the Logansport station or
16 processing plant?
17 A I am not sure whether Mobley is
18 actually at Logansport or whether it is in that area,
19 but I believe it is the Mobley plant.
20 Q It is called -- this is titled,
21 "Logansport Gas Processing Agreement regarding the
22 Logansport compressor station."
23 A Right. I think -- as I said, I think
24 these are all related to the building out of Mobley,

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1 and I think if you go back, and the pages aren't
2 numbered, but you will see that it says Mobley Inlet
3 Compressor Station Costs, and then Mobley Inlet
4 Compression Station.
5 MR. WEST: There is an EQT Energy number at
6 the bottom right.
7 THE WITNESS: Oh, I'm sorry, yeah, if you
8 go, EQT Energy 036374, it identifies that as Mobley
9 Inlet Compressor Costs, and then the next page you
10 will see talks about Mobley Inlet Costs.
11 BY MR. MASTERS:
12 Q Let me direct your attention to Bates
13 page number 36375.
14 A 3637 --
15 Q 5.
16 A Five, okay.
17 Q This is MarkWest Energy Partners, LP,
18 April 18, 2011, to Mr. Mollenkopf from Greg Bezdek.
19 A Okay.
20 Q Do you know who Mr. Bezdek is?
21 A I do not.
22 Q It says, "MarkWest Liberty is
23 requesting EQT approval of the attached AFE for a
24 total of \$20,270,000. This amount covers all costs

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1 associated with the procurement and construction of
2 the Mobley Inlet Compressor Station," and it shows a
3 breakdown of the costs. Do you see that?
4 A Yes.
5 Q Are you familiar with that?
6 A Well, I have seen it before, yes.
7 Q And do you know whether or not that
8 was the \$20 million plus they were providing to
9 MarkWest for the construction?
10 A I don't think that is saying that EQT
11 is going to pay them \$20 million. I think it is
12 saying that they are acknowledging that the plant was
13 going to be \$20,270,000. I am not sure that they are
14 asking for reimbursement. I don't know.
15 Q I mean, that is sort of -- I mean, I
16 am not trying to get -- I am not asking you to agree
17 with that, but that is the way I sort of read it, that
18 they are asking for authorization.
19 What kind of an understanding does
20 MarkWest have with EQT Energy? I mean, is it an
21 agreement or understanding that EQT will advance them
22 the monies to build these compressor stations, and
23 then one way or the other, MarkWest would pay them
24 back?

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1 A Well, I think the understanding is
2 that MarkWest can't afford to build facilities and
3 them not be used, and so they are careful in these
4 arrangements that we are agreeing to -- if they've got
5 to build a facility for processing, that we are going
6 to use it because that is catastrophic.
7 As a matter of fact, you will see in
8 some of the agreements that the near term pricing and
9 processing costs are higher, and then they ratchet it
10 down a little bit as they move away from the
11 construction period, so that MarkWest can afford to
12 build facilities.
13 MR. HENDRICKSON: Marvin, just so you know,
14 too agreement, we think Greg Bezdek may be a MarkWest
15 employee. This may be an internal document of
16 MarkWest.
17 MR. MASTERS: Yeah, I saw sort of that, but
18 then attached to it, though, is the agreement.
19 MR. HENDRICKSON: Yeah, okay, I wanted to
20 make sure.
21 MR. MASTERS: It is signed. I see what you
22 are talking about there.
23 (WHEREUPON, a document was
24 marked for purposes of identification

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1 as Deposition Exhibit No. 41, a copy
2 of which is attached hereto and made
3 a part hereof.)
4 BY MR. MASTERS:
5 Q All right, I am handing you an
6 Amended And Restated Natural Gas Exchange Agreement
7 between MarkWest and EQT Energy, dated December 20,
8 2012, and are you familiar with this?
9 A I have seen it, yes.
10 Q What is this agreement for?
11 A Again, these are all agreements
12 related to increasing the amount of gas that is being
13 processed as the volumes increase.
14 (WHEREUPON, a document was
15 marked for purposes of identification
16 as Deposition Exhibit No. 42, a copy
17 of which is attached hereto and made
18 a part hereof.)
19 BY MR. MASTERS:
20 Q I am showing you a letter dated
21 December 20, 2012, between -- that is from Frank
22 Semple, CEO and President of MarkWest, to EQT Energy,
23 Paul Kress, which you identified earlier. Are you
24 familiar with this letter?

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1 A I have seen it, yes.
2 Q And can you tell me what is going on
3 here?
4 A Again, these are all as time goes on.
5 This might even be the cover letter to this agreement
6 or related to the Exhibit 41, as they are dated the
7 same day. These are all a continuing restructuring of
8 these compression and processing plants to accommodate
9 what is an increasingly large volume of Marcellus gas
10 now flowing into this plant. It is important. This
11 gas has to be processed, and so --
12 Q So in order to sell it, it has to be
13 processed?
14 A Right, or in order to move it into an
15 interstate pipeline.
16 Q You would agree when the gas comes
17 out of the ground and is sold to EQT Energy, that that
18 moment, it has these liquids in it, however, and that
19 just prior to that sale, it belonged to the lessor?
20 MR. WEST: Objection. You may answer.
21 THE WITNESS: Ask the question again.
22 BY MR. MASTERS:
23 Q Well, it was a long question to get
24 to a simple question. The gas that is produced by EQT

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1 Production on these wet wells that we have been
2 talking about, the gas in the ground is owned by the
3 lessor, correct?
4 A I wouldn't know for sure. That is a
5 legal question, one that is not --
6 Q Well, when it comes out of the
7 ground, it has got the byproducts in it?
8 A Yes, I will agree with that.
9 Q Whoever owns it has got them in there
10 coming out, right?
11 A They are in there when it is in the
12 ground, and they are in there when it comes out of the
13 ground. I will agree to that.
14 Q Was there ever any discussion that
15 you were involved in as to whether the lessor would be
16 entitled to their proportionate share of the proceeds
17 from the liquids inasmuch as they had leased the gas
18 to EQT?
19 A No. As a matter of fact, again, my
20 view is that for the most part, it has been a little
21 bit of a nuisance for EQT in that prior to this
22 Marcellus gas, it was just something that had to be
23 dealt with.
24 The risk was always taken by the

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1 Production company until you had this huge plant go in
2 here in a period where the prices spiked up.
3 It seemed awkward to go back and say
4 even to the Production company, you owe us money to
5 take those liquids out for us, so the Energy company
6 has always taken the risk for that.
7 Q Has the Energy company ever borrowed
8 money from EQT Corp or from EQT Production?
9 A Well, no, I don't think from EQT
10 Production. It may have from EQT Corp, although
11 typically -- typically, those companies are -- don't
12 need a lot of capital, and I can't tell you how much
13 the capitalization of them is off the top of my head
14 either and whether they have borrowed money or not.
15 Q Okay. To your knowledge or EQT's
16 knowledge, has EQT Production or EQT Energy or any of
17 its subsidiaries ever sent a letter to lessors, its
18 lessors, and advised them that they were paying them
19 on the amount of gas, the volume at the point of sale
20 versus the amount of gas produced at the wellhead?
21 A I don't think so, although there may
22 be some leases that specifically address that. I
23 don't recall, but if a lease, just like anything else
24 in a lease, if we have leases that specifically

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1 address that, we would have treated that differently.
2 Q Oh, sure, I understand what you are
3 saying.
4 A Okay.
5 Q There might be an exception to that,
6 but as a rule, no.
7 A Exactly.
8 Q The measurement of the BTU from the
9 well, is that at each well?
10 A Well, it depends. On a larger well,
11 there might be some automated equipment. On a
12 smaller, lower volume well, typically what they will
13 do is take a sample, have it tested, and then they
14 will use that for a period of time.
15 There is a standard operating
16 procedure on how often that is done. I am told that
17 after the initial flush production, that that will
18 vary a lot, particularly on older wells. So there is
19 a schedule of how that is done, how often that is
20 done.
21 Q How does EQT Midstream -- what does
22 it do with respect to the gathering rates -- the
23 gathering function and the compressor function or
24 sales function?

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1 A I'm sorry, ask me that again.
2 Q EQT Midstream, --
3 A Uh-huh (yes).
4 Q -- first of all, explain what that is
5 and tell me what it does within the framework of EQT
6 Energy.
7 A Well, I think what you are talking
8 about is EQT Midstream Partners, which is a limited
9 partnership that is publicly traded. Is that what you
10 are talking about or are you talking about the
11 Midstream segment?
12 Q I don't know. That is why I am
13 asking you.
14 A Okay.
15 Q I mean, I think Mr. Piccirilli's
16 deposition, you had said you had read it?
17 A Yes, I did.
18 Q And I know there's partners and then
19 I know there is a business segment.
20 A Yes.
21 Q And I know they sort of fit in there
22 together, to some degree.
23 A Well, when it comes to a business
24 segment, there are lines of business and there's

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1 accounting rules that basically say regardless of what
2 your legal structure is, you should put things
3 together in a certain way to make them more usable for
4 financial advisors and others.
5 And so, for instance, EQT Energy is a
6 legal entity, but some parts of it -- it basically has
7 two divisions, one that in the 10-K and financial
8 statements is put in the production segment and the
9 other is considered a Midstream activity.
10 So that is what business segments are
11 in a financial reporting perspective. There's also
12 EQT Midstream Partners, which had some assets, and I
13 can't tell you exactly which ones they are, although I
14 think Equitrans is one of them that had some assets
15 dropped into it, and then those limited partnership
16 rights were sold to the public almost like, exactly
17 like stock is, even though it is a partnership.
18 That is typically done to unlock the
19 value that a company has that is not recognized in its
20 own stock's value.
21 So it has EQT Midstream Partners
22 Limited Partnership that sells those limited
23 partnership interests to the public.
24 It has its own SEC filings and

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1 reporting requirements separate from EQT Corporation,
2 and, in fact, has kind of the equivalent of
3 shareholders that have slightly different ownership
4 structures.
5 Q Well, then as I understand what you
6 are saying, EQT Midstream business segment is sort of
7 like a group of employees that work in what is
8 referred to as Midstream --
9 A Uh-huh (yes).
10 Q -- which would be like Gathering and
11 -- right, it would include Gathering?
12 A Yes.
13 Q And when Mr. Piccirilli said that I
14 am in the Gathering group, that included people from
15 various parts of the different companies, right?
16 A Yeah, I would say kind of the
17 opposite, that there are a bunch of companies that
18 comprise that Midstream group, as opposed to -- I
19 can't remember exactly how you said it.
20 For the most part, they are separated
21 by either legal distinction or in some cases divisions
22 of a legal entity, but it is not a random employee.
23 Q My understanding is that there's
24 somebody else -- I forget. Who is going to talk about

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1 the corporations and the monies?

2 MR. WEST: Jimmie Sue Smith.

3 BY MR. MASTERS:

4 Q I don't want to overstep that, but I
5 understand -- I mean, I understand she is supposed to
6 address it, but from a functional standpoint and an
7 accounting standpoint, your point of view, these
8 various companies like Production, Gathering,
9 Marketing and so forth are sort of set up to serve the
10 overall business purpose of EQT Corp; is that a fair
11 statement?

12 A Yeah, they all have specific lines of
13 expertise, and they are different, and so, you know, a
14 few years ago, the businesses were separated so that -
15 - let's take -- it used to be that a well tender might
16 walk the gathering lines and tend a well, and the
17 thought was, well, he probably doesn't do either of
18 those very well, so let's have guys that are focused
19 on just production and guys that are focused just on
20 gathering and folks that are just marketing and try to
21 get their expertise levels to be a little higher, and
22 since, for the most part, their interests are -- their
23 interests are to keep costs down and to increase
24 production, that helps the entire corporation as it

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1 Q When EQT Energy pays EQT Production,
2 is that an automatic accounting entry the day that
3 occurs; in other words, moves from EQT Energy's books
4 as -- enters on as a debit and over on EQT Production
5 as a credit that day?

6 A No.

7 Q When does that happen?

8 A I don't remember exactly which day,
9 maybe the 20th day of the following month, but there
10 is a spreadsheet that is prepared based on the sales
11 meters that EQT Energy has, and it is reduced by the
12 gathering costs and then some automatic inter-company
13 type of activity. If one company bills another
14 company, then that net number is paid off of the wire
15 transfer.

16 Q Okay. Can you define what retainage
17 is?

18 A I can try. Typically, the pipelines
19 we talked about lost and unaccounted for, some of the
20 particularly FERC regulated pipelines, have a
21 retainage number that is basically an automatic lost
22 and unaccounted for.

23 So if you put gas on their system and
24 their retainage is ten percent, if you put a hundred

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1 helps each individual line of business, but it
2 typically isn't one employee of this group and one
3 employee of that group. It is a little more sliced
4 than that.

5 Q Does EQT Production make profits?

6 A Yes.

7 Q And how are those profits determined?

8 A Based on the amount of -- EQT
9 Production sells gas to EQT Energy that is net of the
10 gathering costs which EQT Energy pays to EQT
11 Gathering, and then remits the difference back to EQT
12 Production.

13 EQT Production pays its production
14 costs and its employees, and to the extent that they
15 have sold more gas at a higher price than their
16 expenses, they are profitable, and they are.

17 As a matter of fact, you do see some
18 language from time-to-time in analyst's statements
19 about EQT Production being a low cost producer. So,
20 in fact, it does keep its costs down and run an
21 efficient operation.

22 Q Okay. It sells all of its gas,
23 though, to EQT Energy, correct?

24 A Yes.

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1 dekatherms into the system, you are only getting
2 ninety back out automatically by contract.

3 Q I mean, you understand that. I hear
4 what you are saying. I know what a FERC line is, --

5 A Uh-huh (yes).

6 Q -- but I don't understand what
7 putting retainage into the concept of what is -- what
8 kind of things are incorporated into the determination
9 of retainage?

10 A Well, --

11 Q You put a certain amount of gas in,
12 and when you get to the other end of the line, you
13 have less, and are you saying no matter what causes
14 that loss, that is the amount of retainage?

15 A Yes, what I am saying is that, you
16 know, it is simple if there's only one input and one
17 output. It is pretty easy to see how much gas you
18 have lost across that pipe, but imagine an interstate
19 pipeline where there is 50 different input locations
20 and 50 different output locations.

21 How do you know -- and it is coming
22 in at different volumes every day and going out at
23 different volumes every day.

24 It is very difficult to figure out

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1 who lost what. And so typically what happens is, in a
2 FERC filing, there will be an analysis to show what
3 those numbers are and retainage is either set as a
4 matter of tariff, in which case it is always a certain
5 amount, or it can be a fixed contract amount between
6 the parties, if the parties will agree on something
7 different than that.

8 Q In the system here in West Virginia,
9 the gathering system in West Virginia, is there --

10 A EQT's gathering system?

11 Q Right.

12 A Yes.

13 Q Is there any, quote, "retainage"
14 outside of the line loss that we have discussed?

15 A Not for EQT Gathering, no.

16 Q Okay, so that would be measured based
17 on the amount of retainage -- let me explain the
18 reason I am asking this question, because I think I
19 understand it, but I don't want to miss something.

20 When you mentioned earlier that the
21 line loss and the amount that was lost in the
22 compressor or wherever it may have ended up being
23 lost, in terms of from the time it leaves the well
24 until -- the thousand MCF that leaves the well may

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1 Q I am trying to -- I am trying to make
2 sure I understand each of the items. One is line
3 loss.

4 A Uh-huh (yes).

5 Q One would be what would be company
6 use, which might be running a compressor for some
7 other reason, and one might be processing, such as we
8 talked about at -- processing before it would enter
9 into the interstate transmission line?

10 A Yeah, typically, processing can be
11 other than extracting liquid hydrocarbons. We have
12 used that term mostly for that, but some people talk
13 about processing is dehydrating gas, and so a lot of
14 times when gas comes out of the ground, there is a lot
15 of water in it, and it will go into that pipeline, and
16 the company will put dehydrators on the line to get
17 that moisture out of the gas, and that is going to
18 reduce the volumes of gas because that is not flowing
19 anymore.

20 Q Right.

21 A But it is just a processing that
22 occurs to get the gas moving. Otherwise, in the
23 wintertime, that is going to freeze off.

24 Q Right, so is there anything else

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1 equal 900 when it gets to the point of sale, then that
2 is what you would call -- would you refer to that as
3 retainage?

4 A Well, we would call that lost and
5 unaccounted for.

6 Q Lost and unaccounted for?

7 A Right.

8 Q In this process, would there be, in
9 addition to line loss, would there be also loss in
10 compressing or processing?

11 A Yes, and if I am not mistaken, if you
12 look back at the gathering charges, there will be a
13 charge in one of the compression sections for company-
14 used gas.

15 Q That would be like running
16 compressors and that sort of thing?

17 A Right, although today, less and less
18 compressors run on natural gas and more run on
19 electricity.

20 Q Okay, but in terms of, here again, is
21 there a retainage amount in addition to line loss,
22 because I have seen the word -- I have seen the term
23 retainage used.

24 A Well, --

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1 besides line loss, the compression, processing, that
2 you would say would be included in retainage?

3 A Where you see the words retainage for
4 our companies is Equitrans has retainage when gas
5 moves through its system, and I think all of it, the
6 TCO and the DTI and TETCO, have retainage when it
7 moves across their system. So when you put gas into
8 their system, there is retainage to that.

9 MR. MASTERS: Okay, why don't we take a
10 little break?

11 (WHEREUPON, a recess was
12 taken, after which the following
13 proceedings were had.)

14 (WHEREUPON, a document was
15 marked for purposes of identification
16 as Deposition Exhibit No. 43, a copy
17 of which is attached hereto and made
18 a part hereof.)

19 BY MR. MASTERS:

20 Q I want to hand you Exhibit 43. I am
21 showing you Exhibit 43, which is a list, as I
22 understand it, of the sales agreements.

23 It is gas sales agreements. I am not
24 obviously asking you to memorize this, but does this

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1 look like a list of the sales agreements that EQT
2 Energy would have with various companies around the
3 country?

4 A Yes, I see the word NAESB, which is
5 basically a gas sales contract form.

6 (WHEREUPON, a document was
7 marked for purposes of identification
8 as Deposition Exhibit No. 44, a copy
9 of which is attached hereto and made
10 a part hereof.)

11 BY MR. MASTERS:

12 Q Let me show you Exhibit 44 and ask if
13 you can identify that as a Master International Swap
14 Dealers Association agreement.

15 A Yeah, it looks like the form.

16 Q That is between EQT Energy, LLC and
17 Wells Fargo Commodities, LLC, correct?

18 A Right.

19 Q Are you familiar with this agreement?

20 A Well, not this specific one, but I
21 have seen these agreements.

22 Q And can you tell me, this is -- this
23 is a Master Agreement that is dated April of 2013,
24 correct?

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1 summer, June 15, 2014, for how much money, for
2 example?

3 A Well, when EQT Energy takes a view of
4 the future price of gas, let's say it thinks that the
5 price of gas is going to be two-fifty in that summer
6 month.

7 So it enters into a swap for a
8 certain volume of gas in that future month. If the
9 price of gas is higher than two-fifty, EQT Energy owes
10 money to Wells Fargo.

11 If it is lower than two-fifty, Wells
12 Fargo owes money to EQT, and so it basically
13 guarantees a forward price for the gas.

14 Q Okay. If EQT Energy sells the gas on
15 January 15 to -- do they actually sell it to Wells
16 Fargo on that date?

17 A Gas? No, these are typically
18 financial transactions settled in cash.

19 Q But does EQT have to make a sale
20 through Wells Fargo?

21 A It does not.

22 Q Does EQT produce gas to anybody on
23 January 15? Assuming that the swap agreement was
24 entered into on January 15, does it have to set aside

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1 A Okay.

2 Q And it is signed by Melissa Hyland?

3 A Right, we have seen her before. That
4 is a lease.

5 Q Okay, and Wells Fargo's Miechowski.
6 What is the purpose of this agreement?

7 A Well, EQT enters into some hedges,
8 and this would be an agreement to support the hedge
9 transactions.

10 Q And what is the purpose of Wells
11 Fargo -- not Wells Fargo. What is the purpose of EQT
12 Energy entering into the hedge agreements?

13 A Well, periodically, a company will
14 take a view of the price of gas into the future, and
15 when it does that, it locks in what it is going to
16 sell gas for, the pricing for what it is going to sell
17 gas in the future.

18 Q Okay, so if on January 15, 2014, EQT
19 Energy entered into -- let me back up on this Master
20 Agreement. The Master Agreement allows for EQT Energy
21 to hedge agreements with Wells Fargo; is that fair?

22 A Right.

23 Q And as of January 15, 2014, EQT
24 Energy would agree that it would sell gas, say in the

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1 gas on that date?

2 A No, no, it does not.

3 Q Well, how is it determined then --
4 how is it determined that a certain amount of gas is
5 sold on a certain date for a certain amount?

6 A Well, it is taking a -- EQT Energy is
7 taking a risk on the sale of gas, so that when it
8 actually sells gas on that day in the summer, let's
9 say that it sells gas that it has purchased from EQT
10 Production.

11 Let's say that that gas is selling
12 for two-sixty. It will lower it down -- it will sell
13 that gas for two-sixty. It owes ten cents back to
14 Wells Fargo, so it is going to net two-fifty.

15 Q Does EQT Energy receive money, cash
16 money on January 15 or does it get the money in June
17 when it sells the gas?

18 A It gets the money in June based on
19 the difference between -- these are probably based on
20 the difference between the Henry Hub price on the date
21 of the agreement.

22 Q Okay, so there's -- actually this is
23 a hedge or a swap for where Wells Fargo actually does
24 not come into possession of the gas, there's no gas

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1 transaction itself, this is a bet on, sort of a bet on
2 what the value of the price would be at a time in the
3 future?
4 A You could call it that, although, as
5 always, this is kind of a little bit more of a long-
6 winded explanation, but the EQT Energy, I have already
7 told you, has two divisions, one of which is to sell
8 gas that is purchased from the Production company, and
9 then there is another group that makes a market across
10 basis points and puts the gas in storage and leases.
11 The reason I talked about that is
12 because basically what happens here is the
13 corporation, as a whole, may drill a well. Let's say
14 it drills a Marcellus well and pays \$10 million for
15 that.
16 The economics of drilling that well
17 may be to have a price of that gas sold at two-fifty
18 in the future for the next two years to make that a
19 profitable deal.
20 So what happens in certain or some
21 circumstances, to protect itself from a dramatic drop
22 in price, it will say, well, I am willing to give up
23 the upside over two-fifty to protect myself from the
24 downside on the gas.

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1 Q So Wells Fargo would guarantee them a
2 low end in order to get the high end, in the event
3 there was a high end?
4 A Exactly. To the extent the price is
5 higher or lower, one party or the other will pay the
6 differential between the actual Nimex price and what
7 these parties have agreed to.
8 Q If the price of the gas on sale is --
9 say EQT gains. In other words, they come out ahead --
10 A Uh-huh (yes).
11 Q -- does the royalty owner get any
12 part of the gain?
13 A No.
14 Q If they come out on the low end, do
15 they get any part of the loss?
16 A No.
17 (WHEREUPON, a document was
18 marked for purposes of identification
19 as Deposition Exhibit No. 45, a copy
20 of which is attached hereto and made
21 a part hereof.)
22 BY MR. MASTERS:
23 Q I am showing you Exhibit 45. Can you
24 identify that as a base contract for sale and purchase

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1 of natural gas between J. Aron & Company and EQT
2 Energy, LLC?
3 A Yes.
4 Q And are you familiar with J. Aron &
5 Company?
6 A No, not really.
7 Q Can you tell me what this base
8 contract is for?
9 A Yeah, this appears to be a standard
10 NAESB form. It is a contract that sets the parameters
11 for the sale of natural gas to someone.
12 Q Okay, and this particular -- who
13 negotiates? Does EQT Energy actually negotiate these
14 contracts?
15 A Yes, although, as you can see, they
16 are pretty form driven.
17 Q Right, I see that. This one is
18 entered into February of 2014, and this contract would
19 require the sale and delivery of gas where?
20 A I am not sure that -- that it is
21 listed on here. There would be a confirmation or a
22 trade ticket for any specific transaction. I don't
23 think this will tell you without seeing a transaction
24 confirmation.

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1 Q Is J. Aron & Company like a middle
2 man kind of company that would go out on the market
3 somewhere and resale the gas or what are they?
4 A I don't know.
5 (WHEREUPON, a document was
6 marked for purposes of identification
7 as Deposition Exhibit No. 46, a copy
8 of which is attached hereto and made
9 a part hereof.)
10 BY MR. MASTERS:
11 Q I am showing you Exhibit 46. Can you
12 identify that?
13 A Yes, this appears to be another NAESB
14 contract. This one is between J. P. Morgan Ventures
15 Energy Corporation and Equitable Energy, LLC.
16 Q Okay, and this would be a similar
17 arrangement as you had with Wells Fargo?
18 A I don't think so. I think this is an
19 actual physical sale contract.
20 Q Would J. P. Morgan Energy -- Ventures
21 Energy Corporation be a gas company?
22 A I think they are at least a trading
23 organization, but this is a physical sale contract,
24 not a financial transaction.

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1 Q How much are they selling?
2 A Again, you would have to look at the
3 specific transaction confirmation to know what the buy
4 and sell is, but it is certainly conceivable that this
5 is a marketer of natural gas.
6 Now, they may have, at the time that
7 this was entered into, had some thought of the
8 specific locations of delivery and receipt of
9 delivery, but you can't really see that here.
10 Q Okay. Where would -- I mean, these
11 documents were produced to me as being the sales
12 documents of the gas --
13 A Uh-huh (yes).
14 Q -- for a certain period of time that
15 EQT Energy or EQT Corp or Production made, and so what
16 documents would I look at to see what the sales
17 actually were?
18 A Well, this is very similar to the
19 ISDA agreement, which is just a supporting document
20 that sets the terms up. There would be a trade
21 confirmation for each and every --
22 Q Like a wire transfer or would there
23 be something else?
24 A It is going to be just a little slip

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1 of paper that has the terms of that specific deal on
2 how long the gas is going to be delivered, what
3 volumes are going to be delivered, what pipeline it is
4 being delivered from, and where it is to, and there's
5 going to be thousands of those.
6 I would guess that there's a thousand
7 of these, and then there's multiple transaction
8 tickets to support that.
9 So you probably have a spreadsheet
10 from us that shows each and every transaction that
11 occurred, and there is a ticket that supports every
12 one of those.
13 Q Okay, when you say there would be a
14 thousand of those, that would be Exhibit 46, or are
15 you talking about -- I mean, that is, I guess, my
16 question. Are you talking about it would be thousands
17 of contracts like Exhibit 46?
18 A I think there's probably -- thousand
19 is a rough number. I would guess there's
20 approximately a thousand.
21 Q Well, I am not going to try to go
22 through a thousand.
23 A Good.
24 Q I am just trying to get an idea of

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1 things. This is 47.
2 (WHEREUPON, a document was
3 marked for purposes of identification
4 as Deposition Exhibit No. 47, a copy
5 of which is attached hereto and made
6 a part hereof.)
7 BY MR. MASTERS:
8 Q Exhibit 47 is another sale purchase
9 agreement of natural gas between EQT Energy and
10 Infinite Energy of Gainesville, Florida, and can you
11 tell me what you know about Infinite Energy
12 Corporation of Gainesville, Florida?
13 A I don't know anything them.
14 Q This contract was entered into in --
15 I am not sure there is a date on it. There's no date
16 on it.
17 A It is April 19, 2002 -- maybe that is
18 the date of the form. I'm sorry. You are right. It
19 does not look like it is dated -- 11/20/13 is the date
20 on the lefthand side of the bottom of the form. Look
21 at EQT Energy, 037538.
22 Q I see it there -- yeah. All right,
23 so there again, this would be a transaction. Where
24 would the money go? I assume Infinite Energy would be

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1 required to wire transfer money to EQT Energy?
2 A Well, I suppose it would depend on
3 who is buying and who is selling the gas. You will
4 see that there are wire instructions for both party on
5 here.
6 So depending on who is buying and who
7 is selling the gas would depend on who is paying and
8 who is not.
9 Q Okay. I see Wells Fargo on here.
10 A That is a bank.
11 Q That is what I was wondering.
12 A You can see the ABA number.
13 Q Yeah, there we go. Is there a price
14 set on this?
15 A No, these contracts are just base
16 contracts. Some trader at EQT has made contact with
17 somebody at Infinite Energy.
18 They may or may not have a deal, a
19 specific deal in mind, but, you know, before they can
20 enter into a deal, there will be a process that they
21 go through where they will set the terms.
22 There will be some kind of credit
23 evaluation to determine whether we want to even do
24 business with these people and vice versa, and then

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1 there will be trade confirmations.

2 Q Okay. Mr. Crites testified at page
3 104 of his deposition -- I will just read it. I will
4 be glad to show it to you if you need me to.

5 He said that EQT Midstream Gathering
6 calculates the rate which is approved -- this is the
7 gathering rate.

8 MR. WEST: Marvin, just for clarity, his
9 deposition in which case?

10 MR. MASTERS: McDonald.

11 MR. WEST: McDonald, okay, thank you.

12 BY MR. MASTERS:

13 Q "EQT Midstream Gathering calculates
14 the rate which is approved by the CEO and then
15 ultimately by the Board of Directors, and that rate is
16 given to EQT Energy," and then the question, "CEO
17 and/or Board of Directors of what company," and he
18 answered, "EQT Corp".

19 Now, I take it from going back to
20 this morning, we have talked about that, and that
21 would be in this whole big process that limited by the
22 information you provided this morning as to the fact
23 that that would be reduced down to a number, not to
24 all the stuff that maybe was supplied to your pre-

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1 things in this company, EQT Corporation, and then the
2 subsidiaries, and then, like I said, there are groups
3 that do certain things that are utilized throughout
4 all the different subsidiaries. Is that fair to say?

5 A Yes, that is fair to say.

6 Q And the Gas Measurement group,
7 explain what you understand that group to be.

8 A Well, they are going to have -- they
9 are going to have all the measurements coming in off
10 of all the production meters.

11 They are going to have some check
12 meters in the process; that is to say meters that
13 aren't sales meters but maybe a meter at a combination
14 of a bunch of locations.

15 Then they are going to have -- they
16 are going to have readings off of sales meters, and so
17 if you think about that, theirs is a -- their
18 responsibility transcends the business unit.

19 So rather than having somebody from
20 EQT Energy that worries about the meter set at the
21 interstate pipeline connection and somebody at a
22 different company, let's say at the Production, at the
23 wellhead, rather than having the Production employee
24 and an EQT Energy employee both set a meter or both

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1 board meetings?

2 A Yeah, his view would be that that
3 number is approved. That number probably didn't even
4 show up in the document that they approved, but it is
5 a detail that is used in the calculation of the
6 approved plan.

7 Q But in any event, the Board of
8 Directors would have the right to approve and the duty
9 to approve all of these, the entirety of the plan,
10 correct?

11 A Yes.

12 Q And how they would do that would be
13 really up to them, but obviously, they can't approve
14 every little detail of everything going on in a
15 corporation that size, is that correct?

16 A Yes.

17 Q There is a mention in here of a gas
18 measurement group.

19 A Uh-huh (yes).

20 Q You mentioned a Gas Measurement
21 group, and, you know, in reading and taking the
22 depositions of others, there are -- there is this
23 group and that group and the other group, various
24 groups that are given the responsibility to do various

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1 read a meter, one group provides that service for both
2 so that the cost isn't redundant.

3 Q Mr. Crites mentioned that there was
4 an EQT Gathering Equity, LLC in addition to EQT
5 Gathering. Is EQT Gathering Equity, LLC, still in
6 existence?

7 A I think it is still in existence, but
8 this is what I was referring to this morning. When
9 the companies were first set up, there was a view of
10 how the company would be organized.

11 It ended up either not being feasible
12 or not the direction that we ultimately went, and the
13 idea for that, those companies were some of the
14 production, or I'm sorry, some of the gathering would
15 be in a different organization, and I can't remember
16 exactly whether it was because one was going to sell
17 to third parties and one was going to sell to
18 affiliated companies, or whether it had to do with who
19 was going to be regulated as far as gathering lines,
20 because of the fear that in some locations, that you
21 would have to serve customers off of those gathering
22 lines, but whatever it was didn't really prove to be
23 practical, so there was not a lot of distinction there
24 even if the company still exist.

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1 Q As I understand, while there may be
2 some leases that are different, that the overall
3 gathering rate within a particular district, being
4 Weston and so forth, that that rate as established
5 would be charged overall to the -- if there was going
6 to be a rate, a gathering rate charged, that rate is
7 the one that would be charged to the lessors, correct?
8 A Well, yes, and there are three
9 districts, three major districts in West Virginia, and
10 if we thought that there was no restriction on what
11 gathering charges could be charged, they would get
12 that rate.
13 Q Okay, and that would be based on, to
14 simplify it down, that would be based on an overall
15 calculation assimilation of the cost that EQT was
16 going to incur, estimates of what it was going to
17 incur in that period of time, and then average that
18 out?
19 A Well, yeah, --
20 Q -- to a certain proportion?
21 A -- average it over the volumes --
22 Q Yes, right.
23 A -- from that division, but, again,
24 you know, you can oversimplify that by saying we

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1 always charge that rate, because some of the leases
2 will be different. Some of the leases will not allow
3 compressing, compression charges.
4 Q Right.
5 A So the terminology kind of gets a
6 little crossed sometimes. A lot of times when we are
7 saying gathering, we are really talking about
8 gathering and compression and dehydration as charges
9 and reassigned for the values gathering, and in
10 processing, again, sometimes we talk about dehydration
11 as processing, and at other times, we are talking
12 about processing that is the removal of these, the
13 heavy liquids.
14 I don't think there are any contracts
15 where the costs of extracting heavy liquids are passed
16 back either to EQT Production or to the royalty
17 owners.
18 So you need to just be a little
19 careful about which terminology you are using and
20 which distinct --
21 Q I understand that.
22 A Okay.
23 Q You know, a lease may -- in one
24 situation, a lease may say no deduction for

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1 compression or it may say no deduction for
2 transmission or transportation of the gas and so
3 forth, so I understand that.
4 A Okay.
5 Q But the rates for those things are
6 what Mr. Piccirilli's group tries to come up with and
7 make reasonable estimates on, right?
8 A Right.
9 MR. MASTERS: You know, we will back
10 tomorrow, right?
11 MR. HENDRICKSON: Right.
12 MR. MASTERS: Is this a good time to stop
13 today?
14 MR. HENDRICKSON: Good with us -- whatever
15 works for you.
16 (WHEREUPON, the deposition
17 resumes August 18, 2015.)
18 VIDEOGRAPHER: We are on the record now, day
19 two of the of Kay Company, et al. versus EQT, et al.
20 We have some new people present in
21 the room. Would they please identify themselves for
22 the record?
23 MR. FLETCHER: Yes, my name is Carl
24 Fletcher, I'm here on behalf of the defendants.

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1 MR. DOUGLAS: Robert Douglas, for the
2 plaintiffs.
3 VIDEOGRAPHER: Okay, thank you.
4 (Witness sworn.)
5 THEREUPON,
6 J O H N B E R G O N Z I,
7 after having been first administered an oath or
8 affirmation on the record by the Deposition Officer,
9 testified as follows:
10 EXAMINATION
11 BY MR. MASTERS:
12 Q Since yesterday, did you review any
13 additional documents or records in this case?
14 A No.
15 Q Have you had any other discussions
16 with anyone from EQT about this case?
17 A Not specific discussions.
18 MR. WEST: Other than counsel?
19 MR. MASTERS: Yeah.
20 THE WITNESS: No.
21 BY MR. MASTERS:
22 Q And did you discuss any matter upon
23 which you're to testify today?
24 A I don't know what you're going to ask

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1 me today. We have not discussed anything of what
2 you'd ask me today.

3 Q Well, I'll ask that question later
4 then.

5 Do you know -- I believe you know Paul Schmidt,
6 Director of Revenue and Accounting?

7 A I do know him. He's no longer
8 Director of Revenue and Accounting.

9 Q What does he do now?

10 A I don't know.

11 Q Okay.

12 A He doesn't work for EQT.

13 Q Do you know -- let's see -- Diane --
14 is it Diane Pryor?

15 A I do know -- I did know her, yes.

16 Q Does she still work for EQT?

17 A No.

18 Q And to clarify for certain, when you
19 -- you did not seek out any of the present officers or
20 employees of EQT or any of the subsidiaries to discuss
21 what they're doing at the present time with respect to
22 paying royalties or taking deductions?

23 A The officers of the company?

24 Q Officers, directors, employees.

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1 remember his role in the organization. There's Justin
2 -- I lost his last name, but he has some
3 responsibilities relating to gas measurements.

4 I talked with Joe Piccirilli, I
5 talked with Gloria Johnson. I may have had a brief
6 conversation with the folks that I can't remember at
7 this point, but enough to satisfy myself about all of
8 the changes in the process since I was there.

9 Q I didn't hear what you just said.

10 A I said enough to assure myself that I
11 understood any changes in the processes that have
12 occurred since I left EQT.

13 Q And as I understood yesterday, there
14 has not been any changes, am I correct?

15 A Not in the process of paying
16 royalties.

17 Q And I need you to define what you
18 mean the process of paying royalties. Does that mean
19 including taking deductions or not taking deductions
20 or any of those kinds of things? I'm not sure -- I
21 just want to make sure I know what you're saying.

22 A Yes. What I meant to say was that
23 the systems that are in place to pay those royalties
24 have remained unchanged. To my knowledge, there's

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1 A Employees of the company.

2 Q Who did you talk to?

3 A I talked with the Revenue Accounting
4 folks in the Production company.

5 Q So you're testifying, based upon the
6 information they provided you?

7 A Them and the comptroller of EQT
8 Production.

9 Q And who is the comptroller that you
10 talked to?

11 A Jeff Mitchell.

12 Q And who were the individuals -- other
13 individuals you talked to?

14 A From Revenue Accounting?

15 Q Whoever you talked to.

16 A In the -- on the topic of royalties?

17 Q Royalties or deductions from
18 royalties or sales or anything of that nature.

19 A Well, I talked with Jeff Mitchell,
20 Christy Toya, Kelly Vallens. I discussed other issues
21 with a variety of folks. I'm not sure I'll be able to
22 name all of them or get the pronunciations right, but
23 there was Paula Frame, who's in the Gas Measurement
24 group. There's Sam Heppenstall who's -- I don't

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1 been no large-scale changes in the payment of
2 deductions, although changes in leases occur from time
3 to time based on review of a specific lease or
4 discussions between the Land Admin group and Legal and
5 a royalty owner should they have some questions,
6 they'll be reviewed and sometimes they'll be changed.

7 Q But that's not processes, right?

8 A Maybe I misunderstood your question.

9 Q Well, you know, the reason I'm asking
10 this question, you gave a deposition in the McDonald
11 case.

12 A Yes.

13 Q And I take it that that deposition
14 was in 2013 and this is two years later.

15 A Yes.

16 Q So nothing has changed since you gave
17 that deposition, isn't that correct?

18 A No, nothing's changed in the way the
19 process is done.

20 Q And the same would be true for the
21 time period when you retired. I mean, nothing's
22 changed since then, the procedures that were put into
23 effect, the processes that were put into effect prior
24 to that time have stayed the same up to the present

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1 time, correct?

2 A Right. There's some different
3 personnel involved, but by and large, it's exactly the
4 same.

5 Q So the testimony you gave in McDonald
6 case would still be applicable today, correct?

7 A Yes.

8 Q And so the answers that you're giving
9 today and gave yesterday would be the answers of EQT,
10 correct?

11 A I believe they should be consistent.

12 Q Okay. And when you say they would be
13 consistent, you're here testifying as EQT Corp and all
14 the subsidiaries, right?

15 A Yes.

16 Q All right. You were identified to
17 testify with respect to subject matter No. 1 in the
18 Notice and the amount of each deduction from the
19 royalty under 1.D, the basis for the deduction,
20 including an that explanation as to the contractual or
21 other reasons EQT deducted any sum from the royalty
22 and the manner in which those deductions were
23 calculated. Have you testified already in this
24 deposition and gave your explanation as to the amount

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1 of each deduction from the royalty and the basis for
2 each deduction taken?

3 A Each and every deduction on each and
4 every lease?

5 Q Yeah.

6 A No.

7 Q Okay. And do you know the answer to
8 that question for each and every lease?

9 A No, and I don't think it's possible
10 to know.

11 Q So is it fair to say that that would
12 be set forth in a database of information that EQT
13 Production would have on its computer system on
14 Enertia?

15 A I don't think that would be fair to
16 say that.

17 Q Okay, where would you find that?

18 A Well, the amount of each deduction
19 from royalty due would be certainly be in that
20 database. I don't think the basis for each deduction

21 would be in an explanation as to the contractual --

22 Q Okay, well that's -- I didn't mean to
23 include that in there, but I'm sorry, I did, so -- I
24 appreciate your correction on that.

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1 A Obviously, EQT made the decision
2 -- we just discussed this yesterday -- EQT made a
3 decision as to what leases they were going to take
4 deductions and what deductions would be taken for each
5 lease, that's been done, correct?

6 A Yes, I'm a little uncomfortable with
7 the words "made the decision". As I told you -- as I
8 testified yesterday, the majority of these leases came
9 from an acquisition from Eastern States, and the
10 company followed the procedures on each of those wells
11 that was in place at the time.

12 They would not have made an
13 individual decision on any of those -- on any of those
14 leases unless there was a problem with one or somebody
15 contacted them or there was a discussion on those. So
16 I guess the decision would have been to just continue
17 the process that was in place at the time of the
18 acquisition.

19 Q Okay. I thought you indicated
20 yesterday that a law firm had, at the request of EQT,
21 reviewed all of the leases and they were digitized and
22 that there was a decision made as to deductions on
23 those leases.

24 A You're right, I did testify yesterday

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1 that the leases were all reviewed, and I also
2 testified that certain leases were -- the deductions
3 were discontinued based on the advice of counsel after
4 the Tawney decision.

5 The way I understood your question, I
6 did not realize that you were talking about that.

7 Q Well, I mean you testified yesterday
8 that there was a categorization of leases and that the
9 deductions were inputted in -- what leases would have
10 whatever deductions were inputted into the Enertia
11 system, correct?

12 A Say that again.

13 Q The deductions -- I thought yesterday
14 you testified -- I don't think, I know you testified
15 that there were categorization of which lease, as to
16 the leases, which lease would have deductions,
17 correct?

18 A Yes.

19 Q And then what specific itemizations
20 would be deducted from each lease, correct?

21 A Right.

22 Q And that's the way you pay the
23 royalty owners their royalty --

24 A Yes.

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1 Q -- correct?
2 A Yes.
3 Q And that that is -- those deductions
4 are set forth in your Enertia system, correct?
5 A They are.
6 Q And that's how the statements are
7 generated?
8 A Right.
9 Q Let me ask you, we talked yesterday
10 also about an explanation as to the contractual or
11 other reasons that EQT deducted any particular sums
12 from royalty.
13 A Okay, yes.
14 Q Do you remember that?
15 A Yes.
16 Q What I was really trying to do was
17 sort of try to cover this aspect of my questioning in
18 the Notice. Mr. Piccirilli talked about the gathering
19 rates, you know, how they were gathered and
20 calculated.
21 A Okay, yes.
22 Q Now when you were in Production, did
23 you receive in Production his work product?
24 A I wasn't an employee of EQT

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1 Production.
2 Q My understanding was that you were
3 going to testify about what took place; in fact, it
4 was represented in Mr. Piccirilli's deposition by
5 counsel for EQT that you were going to address what
6 took place in Production.
7 A Yes. But you just asked me when I
8 was in Production.
9 Q Okay.
10 A I was trying to --
11 Q Were you VP in Production?
12 A No.
13 Q Okay, I'm sorry, you were VP in
14 Corporate?
15 A Yes.
16 Q But I thought you indicated that you
17 were VP in about all the subsidiaries.
18 A I was an Assistant Treasurer and
19 Assistant Secretary in about all the companies.
20 Q Oh, okay. All right. So did you not
21 receive the product of Mr. Piccirilli -- his Gathering
22 group?
23 A I would have seen it or I've seen it.
24 I certainly would not have been the person to receive

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1 it directly. The Revenue Accounting would have
2 received that information.
3 Q All right. Well, when Revenue
4 Accounting received it, what did they do with it?
5 A Well, they use that as the basis for
6 deducting or gathering compression, dehydration, those
7 type of charges unless the language in the specific
8 lease calls for a different calculation.
9 Q Okay. Was there a determination made
10 as to what the fair market value of the gas was coming
11 from specific leases?
12 MR. WEST: Objection to the extent fair
13 market value is a legal term, but I will allow him to
14 answer to his understanding.
15 THE WITNESS: I'm sorry, ask the question
16 again.
17 BY MR. MASTERS:
18 Q Well, let me ask you this. Do you
19 know what fair market value is?
20 MR. WEST: Same objection, go ahead.
21 THE WITNESS: What a willing buyer and a
22 willing seller are willing to pay for a specific item.
23 BY MR. MASTERS:
24 Q Okay. Do you know whether EQT made

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1 any determination as to what the fair market value of
2 the gas was when it determined the sale of the gas?
3 A Well, my view is that EQT believes
4 that the fair market value is determined based on
5 taking the index price, which is clearly a willing
6 buyer and seller's price are an indication of fair
7 market value at that location, and deducting the costs
8 of getting that from the wellhead to that liquid
9 trading point represents the difference in what the
10 fair market value is at the wellhead versus at that
11 liquid trading point. So, in fact, that is a proxy
12 for what a willing buyer and willing seller would pay
13 at the wellhead.
14 Q Okay. You would agree that at the
15 point of sale on the interstate pipeline is what a
16 willing buyer and willing seller would agree upon in
17 terms of gas that was delivered to the interstate
18 pipeline then, correct?
19 A At that space and at that time.
20 Q Okay. One of the areas that you were
21 going to testify to was explain in detail the exact
22 method you used to determine the amount that each
23 plaintiff/lessor is charged for gathering,
24 transportation and processing fees, and charges of any

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1 kind.

2 I think we covered that pretty much
3 yesterday in detail. Do you know of anything else to
4 add to that?

5 A Where is that on the list?

6 Q Number 4.

7 A I think we did.

8 Q Number 5 is "the persons, group or

9 committee at EQT that authorized the charges for
10 gathering, transportation and processing fees," which
11 were -- I'm paraphrasing -- which were deducted from
12 royalty payments to each of lessors and describe the
13 origins of such charges since December 1 of 2006. And
14 I think we also covered that yesterday, did we not?

15 A Yes.

16 Q And the persons most knowledgeable
17 regarding EQT's imposition of gathering,
18 transportation, and processing fees, which were
19 deducted from royalty payments, we also covered that I
20 think, did we not?

21 A I believe so.

22 (WHEREUPON, an off the record
23 discussion was taken, after which
24 the following proceedings were had.)

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1 We talked about that yesterday as
2 well and with the understanding that the -- what Mr.
3 Piccirilli was doing was forecasting his -- the best
4 estimate that he could do or his group could do with
5 respect to the expected cost, right, or estimated cost
6 for the coming year, correct?

7 A Right. I think I termed it the
8 contractual agreed upon price for the next year.

9 Q In terms of the -- and we discussed
10 that and how that process worked yesterday, right?

11 A Yes.

12 Q Okay. And you have nothing to add to
13 that, correct?

14 A No.

15 Q And Number 11, the volume of gas EQT
16 has produced under its oil and gas leases, as I
17 understand, I don't think that -- I don't think those
18 volumes have been produced in a database here, but as
19 I understand the volumes would be the same as -- maybe
20 we just misunderstood that, Kevin, but in any event,
21 it's my understanding that the volumes reported to the
22 State would be the same volumes that EQT Production
23 would have produced from these wells, correct, at the
24 wellhead?

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1 BY MR. MASTERS:

2 Q We talked yesterday, Number 9, I took
3 just to refer you to these, I'm skipping over 7 and 8
4 because as I understand, Ms. Smith is going to address
5 those. Number 9, the name and address of any
6 consultant or person from whom you sought or received
7 advice or guidance with respect to gathering,
8 transportation and processing fees.

9 I think we covered that, but I want
10 to make sure. Is there anything else that you would
11 add to that in terms of any other person or affiliated
12 company that you may have discussed or EQT may have
13 discussed what processing fees and charges that you
14 would take or were going to take from the lessors?

15 A Well, to my knowledge, we've
16 discussed that and I don't have anything further to
17 add to that.

18 Q And Number 10, the question there or
19 subject matter was EQT's actual net cost in terms of
20 dollars per dekatherm and per mcf and the matter or
21 formula used to determine such net costs to transport
22 and gather gas from the wellhead to gathering or
23 collection points for subsequent distribution and/or
24 sale to the purchasers.

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1 A Yes.

2 Q Okay. Number 15, skipping over those
3 others which were subject to the judge's timeline,
4 Number 15 for the period of December 1, 2006, A
5 through F dealt with the meters and how the gas was
6 metered and calculated, right?

7 A Yes. A lot of these questions that I
8 testified to, there's a level of specificity that
9 makes the actual answering of these questions
10 difficult, like the location of the metering device on
11 each well because there are so many. And my attempt
12 was to explain to you how the process works in theory,
13 how each and every location is determined and how
14 they're metered. So --

15 Q And I understood that yesterday.

16 A Okay.

17 Q My question is do you have anything
18 to add to that? Have you explained to me the
19 knowledge that you have with respect to the metering?

20 A Well, I think I've answered your
21 questions. There is a meter at each well. We didn't
22 talk about the name of the person or persons that made
23 the decision to utilize that type of meter. We didn't
24 talk about the specifics of the meters other than

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1 larger meters are electronically metered and small
2 ones have an older style arrangement with a chart.
3 I didn't say who the integrator
4 normally is on the charts, that's Gas Analytics.
5 There are some other firms that do some work to a
6 lesser extent.
7 The person or persons to read the
8 meter, each meter, again, that's a well tender does
9 that. There's no way I have all that -- I have the
10 name of every well tender.
11 Q I understand that.
12 A I've gone through these things, but
13 I've tried to give you an understanding of each of
14 these areas. If you need additional information, I'm
15 happy to discuss it further.
16 Q Well, I assume that -- has there ever
17 been a -- let me start the question differently. Has
18 EQT or any of its subsidiaries gathered themselves or
19 through a consultant ever audited their metering of
20 the gas well production compared to any actual
21 production separate and apart from the metering? In
22 other words, are the meters regularly checked?
23 A There is standard operating procedure
24 to check the meters based on the volumes that are

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1 produced by those meters.
2 The company -- I think we discussed
3 this yesterday, the company in 2005 reorganized and
4 spent quite a bit of time trying to create areas of
5 expertise.
6 So for instance, when it came to
7 metering, the company spent some time and energy
8 trying to make sure that they understood the flow of
9 gas. I think there's some check meters you'll see if
10 you look at the list of all the meters, so that they
11 could get a sense that -- and they also do this
12 monthly now -- that they can get a sense that the
13 difference between the production and the sales is
14 within a reasonable range.
15 Q I understand Mr. Lancaster is the
16 person to deal with 16 through 21.
17 So 22, the sales contracts and,
18 again, inasmuch as there's numerous sales contracts,
19 and you did not review all of those in the production,
20 I take it that was supplied to the plaintiffs in this
21 case, correct?
22 A Well, this is for sales by EQT
23 Production Company for gas from plaintiffs' wells
24 before the interstate transmission inlet. Those

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1 contracts are between EQT Production and EQT Energy.
2 Q Okay, and that would be all of them?
3 A Yes.
4 Q And we've talked about -- is there
5 anything you have to add to the sales of gas in terms
6 of the contracts for sales from EQT Production to EQT
7 Energy?
8 A I don't think so. I think we talked
9 about that.
10 Q And basically, it's the entire
11 production that's sold to Energy, correct?
12 A Yes.
13 Q Number 23 has to do with NGLs and I
14 have some additional questions about that, but in
15 terms of the MarkWest purchases, I believe you
16 indicated MarkWest is the only processor that takes
17 liquids, processes and extracts liquids, and then
18 sells them for and on behalf of EQT?
19 A Right, they're the only ones that
20 sell liquids and return the proceeds to EQT Energy.
21 Q And is there any other company that
22 takes the liquids off and then sells them themselves?
23 A I believe that there is a plant that
24 the DTI connection in Hastings that does some

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1 processing like that and the company is made whole.
2 I believe they take the risk and the
3 reward on that and just pay for the energy content in
4 the gas that's lost, but it's a much smaller process.
5 Q And -- okay. Is that the only other
6 plant that does -- to your knowledge takes the liquids
7 --
8 A To my knowledge, yes.
9 Q And just so it's clear, that plant --
10 do you know the name of the company?
11 A Dominion Transmission, I think,
12 operates the plant.
13 Q And what they do is they buy the gas,
14 the natural gas from you, just like MarkWest does?
15 A Right, that's my understanding.
16 Q They pay the index price at that time
17 when they take it, is that what they do?
18 A Or they replace the gas. I'm really
19 not -- it's a small amount of volumes. I'm really not
20 very familiar with it, but that's my understanding,
21 yes.
22 Q Where could I find the information
23 with respect to that particular --
24 A We could provide that.

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1 MR. WEST: Yeah, and on that Marvin, and
2 Carl, jump in here, I think that we may have
3 inadvertently not provided that contract. I think
4 that it kind of came to our attention as we was
5 talking to John about how the process works, so to the
6 extent we've not provided that contract, we will do
7 that.
8 THE WITNESS: And I do have to say, that
9 came from my recollection when I was there. I needed
10 -- it's a long time ago.
11 BY MR. MASTERS:
12 Q I understand. Number 24, for sales
13 by EQT Energy, the sales contracts between them and
14 EQT, which you've produced as I understand. Sales
15 contracts between EQT Energy and non-affiliated third
16 parties, other than the one that we -- this would be
17 for NGLs. As I understand it, there's only that one
18 other one, right?
19 MR. WEST: That's correct.
20 MR. MASTERS: And you're going to try to
21 find that and get it to us.
22 BY MR. MASTERS:
23 Q Number 25, that is for the services
24 provided by EQT Gathering, LLC for gas from

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1 plaintiffs' wells. First the Gathering contracts and
2 those contracts would be -- are there contracts
3 between Gathering and EQT Energy for all the gas or
4 are there separate contracts in some locations?
5 A Well, there are separate contracts
6 but in different districts is my recollection, but
7 they're very similar.
8 Q Okay. Under 25, D, the monthly
9 volumes of lost and unaccounted for gas that resulted
10 in reduction of volume produced from the plaintiffs'
11 wells, are there records kept of lost and unaccounted
12 for gas?
13 A Yes, I mean, we recognize what the
14 amount of lost, unaccounted for on a monthly bases.
15 The Gas Measurement group knows how much gas is sold
16 and they know how much gas is put in the system, so
17 almost by definition, we know what's lost and
18 unaccounted for.
19 Q All right. And that's the definition
20 of lost and unaccounted for gas would be the amount
21 produced at the wellhead versus minus what is sold at
22 the point of sale, right?
23 A Correct.
24 Q Okay. And E was all the monetary

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1 deductions charged the plaintiffs and we covered that
2 yesterday as I understand it, correct?
3 A Yes.
4 Q But the only way for me to see that
5 is to see the database that -- I mean, as you
6 mentioned, you cannot quote 8,000 leases or however
7 many wells there are in West Virginia.
8 A Right, I actually -- if you have an
9 888 report that would -- my recollection is that those
10 show which specific leases have which specific
11 deductions on it.
12 Q You also were going to discuss
13 document productions here and I want to go ahead and
14 ask some additional questions, I thought we'd go ahead
15 and try to cover. I believe you indicated that you
16 had reviewed your deposition in the McDonald case
17 before you came, correct?
18 A I did.
19 Q Is there anything in there that you
20 saw that you would change?
21 A No.
22 Q Are you familiar with the maps of
23 your system, EQT Production maps in West Virginia?
24 A Yes, I've seen them.

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1 Q I'm going to show you Exhibit 4 and
2 the reason I'm showing this -- this is the southern
3 West Virginia system. Can you describe for me what
4 we're looking at there?
5 A Yes, this is the southern portion of
6 West Virginia listing the -- in green, the wells and
7 in red and yellow, compressing stations within the
8 system and some type of symbol for a processing plant.
9 Q Okay. And I can see several
10 compressor stations here. At those compressor
11 stations, what is done with the byproduct? I mean,
12 normally, in the compressor station, there are either
13 water and some circumstances, as you mentioned
14 yesterday, where there's hydrocarbons that are
15 accumulated. Just so I understand this, the
16 compressor stations we see here in red are -- there
17 are no sales of any product coming off of the lines at
18 these compressor stations, is that correct?
19 A That's correct.
20 Q The processing plant -- I was trying
21 to find one here. Is there any processing plant on
22 here -- noted on here?
23 A There are. There's one all by itself
24 right along the Ohio-West Virginia-Kentucky border and

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1 then there's one straight across from that. Do you
2 see where I'm talking about?

3 Q I do.

4 A And then there's one straight down
5 from that.

6 Q And is there one up in the
7 northeastern -- almost to -- it looks like it's close
8 to Maryland there probably or Pennsylvania?

9 A Yeah, there is, I can't really read
10 the name of that processing plant.

11 Q And so we're clear again, would any
12 of these processing plants be plants that would be
13 taking byproduct off of the gas and natural gas and so
14 on?

15 A I'll need to check operationally to
16 see. All of these -- most of these processing plants
17 that you see don't seem to really be in areas that
18 have a lot of EQT Production. I don't know whether
19 EQT gas goes to those plants or not.

20 Q Let me show you Exhibit 5, and I've
21 marked on it as 5. It will be 5. And 5 is the -
22 well, it's a repeat in some respects, but it shows
23 also the northern part of the state, correct?

24 A Yes, and let me take a minute and get

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1 specifically identify the Marcellus wells, but what
2 geographic area -- could you identify the geographic
3 area?

4 A Sure, if you were to run your fingers
5 straight down from that plant for about two inches,
6 that would be a -- and then, fan that out where let's
7 say an inch -- a half an inch on each side there,
8 you'd kind of get a sense for how that's fed up into
9 the -- to the --

10 MR. MASTERS: Find me a highlighter
11 please.

12 MR. PERRY: Do you want the bigger copy of
13 those? We had those blown up.

14 MR. MASTERS: Where are they?

15 MR. PERRY: Upstairs on a cart.

16 MR. MASTERS: Well, we'll do this now and
17 we'll get it later.

18 BY MR. MASTERS:

19 Q But can you just sort of put a
20 highlight on that one?

21 A I think it's -- that's my
22 recollection. We may have actually given you a
23 different map that shows that a little more clearly,
24 but that's approximately how it drains.

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1 my reading glasses if that's all right.

2 Q Yeah. I could use some myself.

3 A All right.

4 Q All right. You've identified -- I
5 mean, I don't think you identified all the processing
6 plants on the Exhibit 4, but I was wondering if you
7 could show me the Hastings plant that we talked about
8 yesterday with respect to MarkWest.

9 A The Logansport?

10 Q Right.

11 A Yes, if you look at the corner of
12 Pennsylvania and go down about half an inch, maybe
13 three-quarters of an inch, you'll see that plant.

14 Q Okay. And do you know -- now having
15 the map in front of you, can you identify for me the
16 wells that would be feeding into that processing
17 plant?

18 A Well, I think the -- it's not very
19 clear here because you don't see the transmission
20 lines very clearly on here, but the Mobley plant is
21 going to be fed by a line that goes to Marcellus
22 wells, and you can't tell from this diagram which are
23 Marcellus wells and which are not.

24 Q Well, I'm not asking you to

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1 Q When you say it drains like this,
2 could that be -- for example, the wells, if there are
3 Marcellus in this area here, would that drain into
4 that and go to the plant?

5 A Right. If you look at the gathering
6 agreements between EQT Energy and EQT Production,
7 there's several that -- there's a Mercury, there's a
8 Saturn, there might be a Pluto, I can't remember them
9 all, but all of those are gathering agreements that
10 support that line that runs up into Mobley.

11 MR. WEST: And you said EQT Production, did
12 you mean EQT Gathering and EQT Energy?

13 THE WITNESS: Yes, sorry. Although EQT
14 Production is a party to those contracts.

15 BY MR. MASTERS:

16 Q Yeah, okay. I'm going to leave this
17 out here and why don't we mark that as the next
18 exhibit if that's okay.

19 And on a break, I'll bring down the
20 big map and let you look at that as well. It might be
21 a little bit easier for you to see.

22 (WHEREUPON, maps were marked for
23 purposes of identification as
24 Deposition Exhibit No. 48 and 48-A

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1 a copy of which is attached
2 hereto.)
3 (WHEREUPON, an off the record
4 discussion was taken, after which
5 the following proceedings were had.)
6 (WHEREUPON, a document was marked
7 for purposes of identification as
8 Deposition Exhibit No. 7-A, a copy
9 of which is attached hereto.)
10 BY MR. MASTERS:
11 Q I want to show you what's been marked
12 as Exhibit 7-A and ask you if you can identify that?
13 A Yes, it looks like a copy of a
14 spreadsheet. It looks like it may be a copy of a wire
15 transfer filed, but I can't be sure by just looking at
16 it. Oh, I'm sorry, it says wire transfer. Yes, it
17 is, it is, I'm sorry.
18 Q Have you seen this database showing
19 the wire transfers?
20 A Well, it's on that spreadsheet, but
21 yes, I've seen various months spreadsheets.
22 Q Can you explain going across this,
23 can you explain the identity of one column is
24 commercial production year, month, type, meter and so

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1 forth.
2 A Yes. Commercial, that 226 code is a
3 general ledger code on a company's set of books as is
4 217, which is the Production company's ledger code.
5 The year is clearly self-identifiable and the month
6 is. The type of meter is in this case a virtual
7 meter. That's one of the types of meters that's at a
8 sales location.
9 Q What does it mean, virtual meter?
10 A I don't have any knowledge of the
11 significance to the word virtual. I just think it
12 means that it's a particular type of meter that's on
13 sales meter or at a sales location.
14 Q Okay, then it's got a --
15 A A meter number.
16 Q -- a meter number.
17 A Right.
18 Q And then we've got -- well, it's sort
19 of odd, it's got the type and it's got a virtual meter
20 and then it's got a meter number, and then it's got a
21 virtual meter and, it's got EGC-EQT Production at the
22 first line and you go on down, it's got EQT Gathering,
23 EPC DFS EXT.
24 A Yeah, I believe that's indicating to

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1 you the system that it's on or -- and for who, for
2 which company. This is information out of one of the
3 databases that EQT Energy has and it's pulling out
4 information that's related to these transactions that
5 EPC is being paid for.
6 Q So this would be wire transfers to --
7 A Yeah, this is a wire transfer between
8 EQT Energy and EQT Production. This looks to me it
9 would be just the first page of multiple pages for a
10 wire transfer. And what this is -- what this is
11 showing you is all the gas meters that are bringing
12 EQT Production's gas into the first liquid trading
13 point where EQT Energy is going to pay for that gas
14 and the volume of gas by meter.
15 So just continuing on across that, it's
16 showing you which pipeline the gas is being delivered
17 to, which helps set the price for that gas. The deal
18 number identifies the specific transaction that the
19 gas is being moved under. And then volumes, I believe
20 that's to be the dekatherms that are being sold and
21 the price.
22 Q Let me stop you there at the price.
23 I mean, which price -- what price is that shown there?
24 Like the \$2.24.

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1 A Yeah, that's going to be either an
2 index price or a for sale contract price.
3 Q If you go on across, then it's got
4 commodity and what does that stand for?
5 A Yeah, that is -- one second here to
6 view the map on that. That is -- I believe that to be
7 -- I can't remember off the top of my head. I'll have
8 to review that. I just don't remember.
9 Q Okay. If you go on across then, it's
10 got fuel and in this particular top one, it's just a
11 dash, nothing in there, but if you come on down to --
12 if you come on down to EQT Gathering-EPC-EFS EXT,
13 first of all can you tell me what that stands for?
14 A Where are you seeing this?
15 Q If you come down to see this line
16 right here, the blue line, the next one down in these
17 two columns, it's got EQT GATH-EPC-EFS EXT. What is
18 that?
19 A Yeah, again, these are just
20 identification of the location of a meter that that
21 gas is being delivered either to or from.
22 Q If you follow all across there, it's
23 got a negative for fuel.
24 A Right.

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1 Q And do you have any idea why there
2 would be a negative or deduct or deficit, debit or
3 whatever you want to call it for fuel?
4 A Well, yeah, I think EQT or Equitrans
5 Gathering system is a FERC-regulated pipeline and in
6 addition to -- there are certain deductions that are
7 taken based on their tariff. And you'll see, as you
8 look across this sheet, some of that in other places
9 also.
10 Q When you go across, it's got a debit
11 for \$430.59 gathering.
12 A Right. Again, these are deductions
13 based on the FERC tariff on what this gathering system
14 is or is supposed to charge.
15 Q Then it's got the commodity rate,
16 \$3.24, what does that stand for?
17 A \$3.24. For which line are you
18 looking at, the one right below the blue line?
19 Q It's got -- the very last line with
20 any -- the very last column that has --
21 A Yeah, that -- I don't know and it
22 doesn't seem to go anywhere off of this sheet.
23 Q Well, this is a set and it keeps on
24 going.

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1 A Right.
2 Q Those are -- if you line these up, it
3 just keeps on going four sheets out.
4 A Right, but I can't see the totals on
5 that at the bottom of the page and I don't see any
6 math related to that. So it looks to me -- if we
7 could get a calculator here and check, but it looks to
8 me -- if you look at this that price that's used is --
9 if you'll look at the great commodity column and you
10 multiply that times the volumes, you get that
11 commodity cost. And if you multiply or if you deduct
12 the 3.29, it looks to me like that brings you back to
13 the net price of the gas.
14 So in the case of an Equitrans, which
15 is the first one below the blue line, what's showing
16 is a 199 proceeds from the sale of the gas, net of
17 those FERC-related charges that are required to be
18 taken. But again, I can't do that without looking at
19 a calculator and looking to the bottom of that sheet.
20 Q I mean, are you familiar with this
21 particular database?
22 A I have seen these spreadsheets, I've
23 seen the totals. I'm familiar with it. I'm not going
24 to be able to tell you what each and every one of

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1 these deduction rates are. These are going to be
2 related to various tariffs that are FERC-regulated or
3 -- yeah, FERC-regulated.
4 Q Okay. So what would you have to do
5 in order to be able to -- what would you have to do
6 yourself in order to be able to read this and
7 understand?
8 A Well, I'd like to have the whole
9 month's document --
10 Q When you say the whole month, you're
11 talking about all of the --
12 A Well, you give me -- yeah, you give
13 me page one and I just want to see how it --
14 Q Well, this isn't -- these are our
15 page numbers. It goes across like this.
16 A Right, but this file is maybe a
17 thousand lines long, right, that's why you see all
18 these columns are showing you what pricing in the gas
19 is and any deductions required to get to that net
20 proceeds number that is being passed back to EQT
21 Production.
22 So if you look at the very bottom of
23 that spread sheet and you'll see you have two
24 different varieties. One that's maybe four or five

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1 thousand lines long, but doesn't have as many columns,
2 and then you have this variety, which is much shorter
3 but has all of these columns that are pushing that --
4 all that information back into a line that shows up at
5 the bottom of the -- let's say that thousand lines,
6 which is the amount of money that is being passed onto
7 EQT Production.
8 Q From my reading of Exhibit 7, which I
9 obviously have to rely on someone else to define it
10 specifically, there are identified deals, which I'm
11 assuming is a sale.
12 A Well, it's a sale or it's a delivery
13 -- first delivery to a interstate pipeline.
14 Q Okay. And which shows a volume, a
15 price, a value, a commodity price, a gathering -- a
16 fuel charge if there is any, a gathering charge if
17 there is any --
18 A Right.
19 Q -- and then a rate, which is -- and
20 what I hear you saying is that as we -- as you --
21 right now you can't tell me what those particular
22 things are, right?
23 A That's right.
24 MR. MASTERS: Okay. Why don't we take a

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1 break.

2 (WHEREUPON, a recess was
3 taken, after which the following
4 proceedings were had.)

5 BY MR. MASTERS:

6 Q In the answer to I think it's
7 Interrogatory Number 4, EQT Production stated that the
8 information provided on the statements were for
9 information only and don't reflect charges taken or
10 deducted from the sales price at the wellhead. Can
11 you explain that for me?

12 A Give me a second to find that.

13 Q Sure.

14 A I think this --

15 MR. WEST: Were you referring to some
16 interrogatory answers, Marvin?

17 MR. MASTERS: Number 4.

18 MR. WEST: This looks to be a Notice to
19 Deposition.

20 MR. MASTERS: No, I didn't mean to hand that
21 to him.

22 MR. WEST: Okay.

23 THE WITNESS: Could you repeat the question?

24 BY MR. MASTERS:

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1 Q How would I know or understand that?

2 A Well, I need to go back to Revenue
3 Accounting and look at that specific transaction to
4 see how and why there were taxes deducted from that.

5 As I said before, you don't see a lot
6 of tax deductions on there. I'm not sure whether
7 those are property taxes or severance taxes and why
8 those taxes are being deducted.

9 Q Let me ask a question this way with
10 respect to the taxes. Does EQT charge the royalty
11 owners for property taxes?

12 A I don't think so, not as a general
13 rule.

14 Q Does EQT charge any type of tax to
15 the royalty owner?

16 MR. WEST: And you're talking about West
17 Virginia?

18 BY MR. MASTERS:

19 Q In West Virginia and state severance
20 taxes, EQT can only charge the royalty owner severance
21 tax in West Virginia.

22 A Well, it would depend -- it has to
23 depend on the individual lease. Generally not.

24 Q Okay. And can you tell me today

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1 Q Well, let me just say it this way,
2 and rather than repeat something and ask you to -- I'm
3 not asking you to verify that then. So my question
4 is, for example, where are those exhibit numbers, 25
5 through 29?

6 A The remittance devices?

7 Q Right.

8 A Yes. Okay.

9 Q If you look at 25 is good enough
10 -- Exhibit 25, the Leggett statement. My question is
11 the information up here that shows the deductions, my
12 understanding was that those were -- whatever was on
13 here as the deductions were actually deductions taken
14 from the lessor's royalty, correct?

15 A Right.

16 Q Okay. I mean, I was somewhat
17 confused by an answer that was in one of the
18 responses. I'm just trying to make sure that I was
19 correct about that.

20 While we're looking at that, on
21 Exhibit 25 where it says gross taxes, under taxes, can
22 you identify and explain to me what type of tax that
23 is referring to?

24 A No.

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1 what kind of a lease or what provisions in a lease
2 would permit, to your understanding, EQT to charge a
3 lessor a severance tax?

4 A Yeah, I think it would have to have
5 some language about severance taxes in there.

6 Q In the lease?

7 A Yes, that would be my understanding.

8 Q And the same with respect to property
9 tax?

10 A Property tax as a deduction for a
11 cost of the well?

12 Q Right.

13 A Yeah.

14 Q Yeah, what? I meant --

15 A Yeah, I think there would be some
16 specific --

17 Q Requires some language specific for
18 that lease?

19 A That's my understanding.

20 Q The way you said that makes me think
21 that perhaps property tax could be incorporated into
22 certain things. We went over yesterday, the gathering
23 rates --

24 A Yes.

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1 Q -- and in that, a property tax for
2 those properties was incorporated into the gathering
3 rate, correct?
4 A That's my recollection. I think
5 there was actually a line item for that.
6 Q I have those out here, let me see if
7 I can get them out. Yeah.
8 A Here's one, 24.
9 Q Yes, 24. And let me make sure we're
10 on the same page here.
11 A The one I have opened is Weston 2010,
12 O & M expense detail.
13 Q Okay. All right, and there is an
14 item for property taxes in that list of expense
15 detail, correct?
16 A Yes.
17 Q While we're on that, let me just go
18 through these. If you look at the top there, it's got
19 personnel costs, \$1,213,893, correct?
20 A Right.
21 Q And can you tell me what -- when it
22 says personnel costs, is that employees of EQT that
23 that's referring to?
24 A Yes.

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1 Q And vehicles, is that \$109,218 for
2 vehicles, that would be EQT vehicles?
3 A Right, operation of those vehicles.
4 Q And then the District Office of
5 \$20,018, that would be for what?
6 A There is an office location in
7 Weston.
8 Q And do you know what items or
9 categories would be fitted into the \$20,000 for the
10 district office?
11 A Well, I think that is the cost of
12 operating that office. I think there will be some
13 detail behind that.
14 Q And I thought you said the vehicles
15 would be for the operation of the vehicles. What kind
16 of vehicles would be involved?
17 A My assumption is your trucks or
18 vehicles that they use to go out to all of the
19 gathering lines or do whatever work they're doing in
20 the field.
21 Q Okay. Is it fair to say that you
22 don't really know exactly what vehicles they're
23 talking about or what the charges are for the
24 vehicles?

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1 A I don't know if that's fair or not.
2 These are vehicles that are used in the operation of
3 the Weston gathering organizations. Specific vehicles
4 and the specific guys that are driving those around, I
5 have no idea who they are or I've probably met some of
6 them.
7 Just like any other operation, field
8 operation, people go in the field and they do work in
9 the field. They are going to carry things to
10 compressing stations. They are going to move things
11 around, all of the things that an operation such as
12 that would entail.
13 Q Okay. But there would be a back-up -
14 -
15 A Yes.
16 Q -- to each one of these expense
17 details, correct?
18 A Yes.
19 Q And like the O & M compression, would
20 you know whether that's direct charges to EQT by a
21 third party or whether some of that's included in
22 there would be EQT's own compression charges; their
23 own equipment, their own employees?
24 A Well, more specific questions on this

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1 are things that Joe Piccirilli would have or should
2 have testified to, but this is not the cost of outside
3 compression. This is EQT Gathering compression. And
4 you know, we talked about that a little earlier.
5 This gas is collected in the field.
6 It's sent to a compressing station, but typically, the
7 pressuring of the line is increased so that it can be
8 moved further down the line.
9 You indicated that some liquids and
10 some oil and gas fall out of that. That's usually --
11 that's not saleable -- product that is waste materials
12 that is disposed of, but those kind of costs are the
13 costs that are in there.
14 They are not taking the gas of
15 somebody else's compressing station and moving it
16 through that. That's not what those costs are.
17 Q Okay. Do you know what the
18 environmental safety category is?
19 A Well, again, these compressing
20 stations, the whole operation involves gas and oil
21 byproducts. When these things are spilled on the
22 ground, they need to be cleaned up. There's training
23 on how to do that. There's cleanup -- that kind of
24 thing.

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1 Q Insurance, what would be the
2 insurance?
3 A Protection of -- for --
4 Q Liability insurance probably?
5 A Yeah.
6 Q Pipeline and gas control, what would
7 that be?
8 A Yeah, I don't know specifically.
9 Obviously, there are valves on these pipelines that
10 this gas is moving through. I can't tell you whether
11 that is related to those costs or whether it's the
12 actual setting up of readers and automatic controls
13 for the SCADA system, but basically the gas -- pipes
14 are open -- or valves or open and closed along the
15 gathering system to move the gas in different
16 directions and to take care of line slips and that
17 type of thing.
18 Q Okay. Field measurement, would that
19 be meters or what would that be?
20 A Yeah, I can't be exactly sure on
21 that, but again, these organizations are the ones that
22 take the gas from meter at the wellhead and move it to
23 the first liquid trading point, and these may be
24 people that are -- this may be costs involved in the

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1 collecting of these meters -- charts off of the meters
2 and that type of information. The fixing of meters or
3 testing of the meters, that type of thing.
4 Q Compliance and training, what would
5 that deal with?
6 A These are hazardous materials moving
7 through these pipelines and people are trained what to
8 do for leaks and how to work on these pipelines and
9 how to work safely and injury-free.
10 Q Facilities engineering.
11 A Engineering -- again, these pipelines
12 have issues that -- they may need to be moved a little
13 bit or somebody will ask questions about where they
14 are in the field and whether they're in the right
15 place and that kind of thing. You've got people that
16 can handle that in the field.
17 Q Okay, GIS?
18 A Yeah, that's -- I think that is a
19 mapping -- I can't be sure, but my recollection is
20 that's what that is, is a mapping of the pipelines
21 system.
22 Q And SCADA?
23 A SCADA we talked about earlier.
24 That's a commanding controller of the pipeline system

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1 of valves and the pressures.
2 Q Okay. And the next page is summary
3 and it says, "costs of service O & M," total about 15
4 and a half million dollars and then SG &A of 7.25
5 approximately million and then taxes other than income
6 taxes of -- I think we've gone through O & M in a
7 general way, correct?
8 A Yes.
9 Q Now explain what SG&A is.
10 A Well, SG&A stands for Selling General
11 and Administrative costs, the fact that indicates that
12 it's allocated and then again, this is something that
13 Joe probably should have talked to you in more detail
14 about, but basically, these are people outside of that
15 local office that are having their costs allocated
16 down to that operation.
17 Q Is it fair to say that in terms of
18 trying to determine the specifics of that, you would
19 need to see the detail behind the quote SG&A term?
20 A Well, you at least need to see the
21 allocation and how it was allocated.
22 Q But in terms of what that is, is that
23 like a certain amount of administrative costs for your
24 work on gathering or would it be the administrative

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1 staff including maybe Mr. Piccirilli, his charges on
2 that and maybe some of Midstream's personnel and their
3 charges on gathering?
4 A Well, I certainly believe that it has
5 Joe Piccirilli in those type of costs, whether it
6 would have gone to my level or not, I can't say. I
7 just don't have a recollection of that specificity.
8 Q All right. Mr. Piccirilli -- based
9 on the information that was provided to Mr. Piccirilli
10 from the various districts, as I understand, he takes
11 all that information and boils it down to something
12 like this, which is actually utilized in the
13 computation of the service costs, right?
14 A Well, yeah. This is a piece of cost
15 of service that is charged to the Production company
16 that in cases where the lease language isn't specific
17 but believes -- isn't specific on what gathering
18 compression and dehydration type of charges should be
19 charged, this is a more general deduction rate that
20 will be taken on those by district.
21 Q Would you explain that again for me.
22 I got lost somewhere in there.
23 A Well, Joe Piccirilli's group
24 calculates an overall cost of service which is the

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1 number that's bigger than this, say 28 cents on here.
2 That 28 -- that number that's bigger than the 28
3 cents, that includes some other items, is what EQT
4 Production gets charged for gathering or any other
5 working interest gets charged for gathering.
6 EQT Production doesn't charge that
7 entire gathering cost to the royalty owners. It
8 skinneys it down to this piece of that and in some
9 cases, uses this as the rate. This would be the
10 general rate that would be used in Weston.
11 Q And that would be, for example, in
12 2011, in Weston, it would have been 28 cents per
13 dekatherm?
14 A Right.
15 Q But that -- I'm sure you've seen a
16 sheet that shows this 28 cents and what the working
17 interest in EQT Production paid, which is a bigger
18 number, and all I'm saying is this is only a piece of
19 that number.
20 Q Of the cost of service?
21 A Right. So Joe is -- Joe Piccirilli
22 is calculating that entire number and he's taking a
23 piece of that for you and for the production, he's
24 saying, hey, these specific items within that are the

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1 so I see what that is.
2 Have you ever seen a document that
3 describes the SG&A?
4 A Yes, I've seen at least an actual --
5 I've seen lists of the general ledger accounts that
6 make up that number.
7 Q And from your memory, can you go
8 through that and list for me, to the best of your
9 memory?
10 A I can't. I know there's some
11 allocation factors depending on the specific charges
12 that are being allocated, but again, it's hard for me
13 to -- I think some of them are the number of miles of
14 pipe and that kind of thing. And I just think that --
15 I don't recall if you asked that of Joe earlier or
16 not, but he'd be much better suited to answer that.
17 Q Okay.
18 A I've seen that calculation, but I
19 just don't retain that much specificity.
20 Q Let me show you Exhibit 3. If you'd
21 look at the last page of that exhibit, it's for
22 October 2014. It's one of the various little entities
23 and one of them in there is Midstream, right? Do you
24 see the triangle there at Midstream?

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1 amount you wanted to know about and that are charged
2 to many -- or at least some of the leases in West
3 Virginia.
4 Q Okay. And the bigger number comes
5 off of EQT Production's sales price?
6 A Well -- right.
7 Q In other words, they --
8 A Right. If you look at that wire
9 transfer and you go down to the last page, you'll see
10 a number for the gathering in its entirety. So what
11 happens when -- EQT Production pays the gathering fee
12 to EQT Gathering regardless of whether that royalty
13 owner pays a portion of that. And if they don't, EQT
14 eats it -- EQT Production eats it.
15 Q Okay. Now there's below in this cost
16 of service it's got O & M, SG&A and it's got taxes
17 other than income, which is here, \$1,412,000 and it
18 says "see detail," and I don't know that I see taxes
19 on here. It's a separate item, I'm not sure.
20 Well, I think maybe he pulled the
21 taxes out. Yeah, he's -- I see what he did. It's
22 taxes. Taxes are incorporated in the list and then if
23 you total it up with the taxes in it, it is 16.9, and
24 what he's done, he's pulled the 1.41 out of the list,

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1 A Yes.
2 Q And then go left or right on the
3 dotted line, you've got EQT Midstream Services and EQT
4 Midstream Investments. As I understand it, EQT
5 Midstream does the calculations for determining the
6 gathering rates and cost of service, am I correct?
7 A Well, I think that the term EQT
8 Midstream can be somewhat confusing. EQT Midstream
9 Partners is a limited partnership and if you see to
10 the left there, you see those limited partners and
11 those are basically, they own a limited partnership
12 interest, but it gets traded like stock does on the
13 Exchange and the assets below that are the ones that
14 are included in EQT Midstream Partners.
15 But if you look up the chart, there
16 are other EQT Gathering companies above that, so
17 sometimes when you hear the term EQT Midstream, you're
18 really talking about a group that includes more than
19 those items below EQT Midstream Partners LP.
20 Q Well, which of these Midstream
21 companies assists or participates in determining or
22 calculating the cost of service for EQT Production's
23 cost of service as deducted from their sale price or
24 from these sale prices?

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1 A Well, I think it's a combination of
2 companies that incorporate assets that are in EQT
3 Midstream Partners and those that are not, which would
4 be up at the EQT Gathering LLC level.
5 You see, there's EQT Gathering and
6 there's EQM Gathering and there's other companies that
7 are not down below EQT Midstream, and generally, when
8 you're talking about EQT Midstream operations, you're
9 talking about some that are below there and some that
10 are above there.
11 Q You mean all of them participate in
12 it or not? I mean, I'm trying to understand who does
13 that. I know EQT Midstream participates in it because
14 Mr. Piccirilli said that he -- said that while he was
15 paid I think by Gathering, he actually worked at
16 Midstream, right?
17 A For the Midstream operations. But
18 again, I think when you talk about EQT Production or
19 the production that shows up in the 10-K, those are
20 business segments and I think he was talking about
21 business segment EQT Midstream.
22 So that's a -- that is somebody that
23 takes care of -- that could be below EQT Midstream
24 Partners or it could be at the EQT Gathering level,

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1 depending on which specific assets you're talking
2 about.
3 Q Well, it sort of all works together
4 to -- I mean, all of these subsidiaries that you
5 mentioned here work together in terms of gathering
6 function, am I correct?
7 A Right. I think -- yes.
8 Q Okay. Now Equitrans, is Equitrans,
9 is that still a company?
10 A Yes.
11 Q But is owned or it was merged into
12 EQT?
13 A Well, Equitrans, I believe that's
14 down below EQT Midstream Partners.
15 Q Well, for example, there's an EQT and
16 there's a Equitrans agreement -- all right, let me
17 show you this.
18 This is 12, Exhibit 12-B of Mr.
19 Piccirilli's deposition. I'm handing you Exhibit 12-B
20 which is an AGS service agreement applicable to the
21 Appalachian Gathering Service, and it says, "This
22 agreement is entered into this 27th day of September
23 2012 between Equitrans, LP and EQT Energy, LLC."
24 A An agreement like this -- if you look

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1 at that funky color on that last row.
2 Q Uh-huh (yes).
3 A Equitrans, LP.
4 Q Okay.
5 A And if you look up on the chart
6 there, it says, "Transmission Storage and Gathering
7 Operating Companies".
8 Q Uh-huh (yes).
9 A And so, this is an agreement -- it's
10 an operating agreement and it is, in fact, Equitrans,
11 LP, if that's what you're asking me.
12 Q Right. But Equitrans, LP -- this
13 would be like an intercompany, an overall intercompany
14 agreement, right?
15 A Well, yeah. It's a little confusing
16 there because EQT Midstream now is the owner of
17 Equitrans and they're not wholly owned by EQT Corp.
18 Q But they're partially owned?
19 A Yeah, partially owned.
20 Q And the other -- EQT Corp., as I
21 understand it, is the managing partner --
22 A Okay.
23 Q -- correct?
24 A Yes, I think that's right.

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1 Q And the other individuals or
2 companies, whatever the partners are, are --
3 A Limited.
4 Q -- limited partners?
5 A Yeah, they might be called the
6 general partner as opposed to the managing partner,
7 but yeah, I get the idea there.
8 But I do want to say that because you
9 have shareholders that don't have exactly the same
10 interests as the EQT shareholders that, therefore,
11 that's a higher standard than you may see it in their
12 company transaction.
13 Typically, all of these companies are
14 aligned anyway and all work in the best interest of
15 both the overall operation and because of that,
16 everyone benefits, but you can't have a situation that
17 Equitrans, LP was favoring an EQT corporation and its
18 shareholders over a EQM Limited Partner.
19 Q Yeah, I'm not suggesting that. I'm
20 just trying to understand. There's some agreements in
21 there with Equitrans. For one thing, Equitrans was
22 purchased, I think, originally according to the
23 chart, it was purchased by -- it was not an -- let me
24 start over.

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1 It was not originally purchased by
2 Midstream. It was originally purchased by EQT and
3 then later was put into Midstream, LP, Limited
4 Partnership, right?
5 A Well, purchase is too strong of a
6 word. It was part of EQT and was spun down as a FERC-
7 regulated pipeline.
8 Q Yeah, and it was like a 97 and half
9 percent owned by EQT Corp in December of '11 according
10 to this, and then it was put in under EQT Midstream,
11 and if I remember, that was a contribution that EQT
12 Corp made to that limited partnership, right?
13 A Okay, that's possible, yes.
14 Q I have you a bigger map. You may
15 still need your glasses.
16 MR. WEST: I'm going to move, but not drink
17 your water.
18 THE WITNESS: Thank you.
19 BY MR. MASTERS:
20 Q And this, if the exhibit number is
21 right, so --
22 (WHEREUPON, an off the record
23 discussion was taken.)
24 BY MR. MASTERS:

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1 A Actually, it's probably likely. I
2 was looking for -- here's Saturn, that's a gathering
3 for -- so clearly it's coming over that way.
4 Q Okay.
5 MR. MASTERS: Can we get a copy -- rather
6 than try to get this great big map with the
7 definitions, can we just like get a color copy of the
8 highlighted area?
9 MR. PERRY: Sure.
10 MR. MASTERS: Pass that down. I think we'll
11 take a lunch break and try to finish this up real
12 quick.
13 THE WITNESS: Okay.
14 (WHEREUPON, a recess was
15 taken, after which the following
16 proceedings were had.)
17 MR. MASTERS: All right, are you ready?
18 (WHEREUPON, a document was
19 marked for purposes of identification
20 as Deposition Exhibit No. 48-A, a copy
21 of which is attached hereto and made
22 a part hereof.)
23 BY MR. MASTERS:
24 Q Okay, let me show you Exhibit 48-A.

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1 Q We're looking at a larger copy of
2 Exhibit Number 48, correct?
3 A Yes.
4 Q And again, if you take the
5 highlighter and if you would, you can show the --
6 first of all, why don't you circle the MarkWest plant
7 and then, if you would, show the transmission lines
8 that go to it.
9 A Well, I don't see --
10 Q Yeah, I know it's very general, but --
11 --
12 A Yeah, I think really that's the main
13 line that goes into it.
14 Q Okay, and then what areas would feed
15 into that then? Is there anyway, for example, I'm
16 going over here, but would these wells over in here,
17 assuming there was a Marcellus one in this area here
18 at -- I can't read it upside down --
19 A Auburn.
20 Q The Auburn station, would that --
21 A No, maybe it is Album. Yeah, I --
22 we'd need the map that shows a little bit more
23 specificity, but that's possible.
24 Q Okay.

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1 This is a copy of the large map that we showed you a
2 little bit ago, which, the blow-up actually at 48, and
3 on that large map, we had asked you to sort of
4 demonstrate the area in a rough way, but highlight the
5 area that would be fed into the Mobley MarkWest plant,
6 correct?
7 A Yes.
8 Q And is that a fair copy, a reasonably
9 fair copy of what you drew?
10 A Yes.
11 Q Also, I had asked you about Exhibit
12 7; I'm going to give you a copy of that back because I
13 don't think we -- you don't still have your copy of
14 this, do you?
15 MR. WEST: No, not here.
16 BY MR. MASTERS:
17 Q Okay, let me go ahead and hand that
18 to you as well. And the reason I'm showing you
19 Exhibit 7 is because you indicated that at the end of
20 this, as you guess was a very large database, there
21 were some totals here, and so I had marked and copied
22 that last page, the last couple pages and we marked
23 that Exhibit 7-A. Do you see that?
24 A Yes.

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1 Q Does this look familiar to you?
2 A It looks like the bottom portion of
3 at least some of the columns of the wired transfer,
4 spreadsheet No. 7, I'm assuming it is at the end of
5 that same month.
6 Q Well, what I want to direct your
7 attention to at the top of the first page and you
8 know, I don't have all the other stuff that comes with
9 it, but November and then it's got accounts 226 and
10 217, which I think you indicated don't give which was
11 which. One would be Energy and the other would be
12 Production, Gathering or --
13 A Yes, 217 is Production, 226 is
14 probably EQT Energy.
15 Q So then it shows a volume of
16 40,938,970, price 2.97, value 121 million-plus
17 dollars, correct?
18 A Yes.
19 Q And then it's got underneath it, True
20 ups and then it's got \$237,911 and price 2.07 and
21 value \$492,308. Can you tell me what that true up is?
22 A Yeah, I'm going to -- those are
23 adjustments for probably other periods involved for
24 adjustments that were made to reconcile the volumes to

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1 A Most of them, yes.
2 Q Can you tell me about any of them?
3 A Well, I can tell you what November
4 Gathering estimate is and October estimate then actual
5 is.
6 Q Okay, well, let's take the November
7 Gathering Est-Equity is.
8 A Yeah, that's the charge, as I
9 mentioned to you earlier, that EQT Energy is charging
10 back for the cost that they have to pay to Gathering
11 for the gathering of the Production company's gas.
12 Q Okay. So I take it that would come
13 off of the \$121 million --
14 A Right.
15 Q -- plus, right?
16 A Right.
17 Q And then the next is October
18 Gathering estimate equity and it's 30,787,000-plus
19 dollars.
20 A Yes.
21 Q And what is that?
22 A Well, the books of EQT -- excuse me
23 -- Production are closed on estimates for the month,
24 and then the process is that the production is

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1 the meters -- to metering.
2 Q Okay.
3 A I'm sure there's backup somewhere for
4 that.
5 Q Then there's what's called
6 adjustments. And starting off with BSP-TCO Reclass
7 (November).
8 A Right.
9 Q What is that -- and it's got a dollar
10 amount attached to that as \$28,289.71, do you see
11 that?
12 A Yes, for the most part, these are
13 going to be one off type of items. Sometimes they can
14 be recurring items, but a lot of times they are one
15 off, so I can't tell you specifically what BSP-TCO
16 Reclass is.
17 Q Okay. Then you go down to the third
18 line and it's got Equitrans TCO Reclass 133,000-plus
19 dollars and then Equitrans TETCO Reclass of 499,000-
20 plus a debit, correct?
21 A Right.
22 Q And is it correct to say that you
23 don't know the details of why these debits and credits
24 are taking place on this sheet of paper?

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1 actualized over a two-month period as the royalty
2 statements are prepared and everything is finished
3 off, and then the estimates are adjusted for the
4 actual final numbers for that month. That's why
5 there's a lot of true ups and adjustments in various
6 items over a period as they clear the estimates out
7 and get to the actual billed numbers and collective
8 numbers.
9 Q Well, I notice the October Gathering
10 Est Equity is both positive and negative and debit,
11 correct?
12 A Yes.
13 Q And inasmuch as this for the month of
14 November, can you explain why -- well, is your
15 explanation that this is like a two-month period of
16 true ups, it works about two months behind? I'm not
17 sure I understand.
18 A Well, this -- what I was saying is
19 that the closing of the books for EQT Production and
20 actually for EQT Corporation, the sales of gas for
21 Production are done based on an estimate, and that
22 estimate, it actually takes two months until the
23 royalty statements are prepared and sent out.
24 So you'll see a different production

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1 date than the remittance advise state. And this is
2 just the reversing of the previous month's estimate
3 and the correction of it. You can see the numbers are
4 not very far off.
5 Q Like \$20. No, about 3,000 and --
6 A But I think you'll see that in each
7 and every --
8 Q Every one of these, each and every
9 month?
10 A Or at least any that the volumes were
11 adjusted. And --
12 Q Go ahead, I'm sorry.
13 A Well, I was just going to say,
14 incidentally, once you show the rest of this at the
15 bottom of this report, you can see how those columns
16 work, is that -- and you had asked me about the
17 commodity previously.
18 If you'll look at how that lays out
19 there, that is the -- let's call it the gross price of
20 a dekatherm of gas, and then there's certain
21 deductions that are reductions of that that are taken
22 as a matter of tariff to get to that net rate that
23 shows up in the columns that you can see come down to
24 the very bottom of that report, if you understand what

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1 I'm saying.
2 All of the rest of those columns from
3 Value over are going to now collapse into that one
4 column, and that gives you the total of the cash to
5 move around the system.
6 Do you see what I'm saying? If you
7 take your sheet and you line it up like this, all of
8 the rest of the columns from here on over, if you were
9 to actually see that spreadsheet, I think you'll find
10 that the math of those are -- that they all collapse
11 down into this pricing, which it drops down to the
12 bottom of the sheet.
13 Q Okay. In other words, Equitrans
14 would be a positive number, but it could have been,
15 for example, been a negative number? Is that what
16 you're saying, if you added up all of Equitrans --
17 A No, I'm saying if you take this first
18 column and if you look at this very first -- I'm
19 sorry, the second row, I think if you take that 1,065
20 minus the 329 that will give you the -- unless there's
21 something in another column, that will give you the
22 736.96. That divided against the volumes gives you
23 that price of 224.
24 That 736.96 is something that's

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1 carried all the way to the bottom of this sheet and is
2 the cash that moves between EQT Energy and EQT
3 Production.
4 Q Okay. But the total here on 7-A,
5 these different adjustments, that would be -- would
6 that be related to the totals, positives or negatives
7 on the -- for example, Equitrans Gathering?
8 A Probably not. As I said, I think
9 these are specific adjustments, but I don't see a
10 volume number and they're not related to a meter, and
11 the information from this report is going to be
12 synthesized by meter so that it can be fed into
13 Enertia so that it can blend those prices back to the
14 royalty owner.
15 Q Okay. There is, as an example, on
16 the bottom of this larger column here, it says,
17 October Gathering True Up Third Party and it's got a
18 negative \$85,920 there, and that is -- for that
19 particular one, it says Antrim -- A-n-t-r-i-m. Do you
20 know what Antrim is?
21 A I'm assuming they're a third party
22 gatherer.
23 Q And then October Gathering True Up
24 Third Party, there's another debit of 149 some odd

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1 thousand dollars.
2 A Right.
3 Q And then there's a MarkWest volume
4 TCO, volume 270,000 negative, debit and then a value
5 of 874,800, correct?
6 A Right.
7 Q Do you know how those numbers are --
8 where those numbers come from, what they represent?
9 A Yeah, that MarkWest volume is that
10 Energy number that Energy is paying to the Production
11 company for the shrinkage of gas.
12 Q Would you say that one more time? I
13 mean, you say paying MarkWest or giving them credits
14 for --
15 A This is the volumes of gas that are
16 lost in the processing of the natural gas into
17 liquids.
18 Q Okay, so then that amount would be
19 debited from the amount that Production pays, right?
20 A Well, I almost have to see the
21 digital version than this because you'll see there's
22 some in and outs at the bottom of this sheet that this
23 is just supplying additional information.
24 If you look at 874,8 -- it's in and

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1 out there. And then there's some adjustments for
2 other volumes, and I think that -- my recollection is
3 that all zeroes out so that -- some of that zeroes out
4 so that they can have information down in that lower
5 section that provide -- and again, I'd have to see the
6 actual digital version to work my way through it
7 again. But that's what it's related to.

8 Q Well, I -- we may be able to arrange
9 for that actually. I'd like to understand this
10 better.

11 A I think -- Isn't there another
12 witness that is going to testify to wire transfers?

13 MR. WEST: That's one of the things that Ms.
14 Smith will be talking about.

15 MR. MASTERS: She'd have to testify about
16 this?

17 MR. WEST: Yes, she could talk about wire
18 transfers also.

19 THE WITNESS: I thought she was. I'm happy
20 to --

21 MR. MASTERS: Yeah, I thought this was your
22 area.

23 MR. WEST: Well, we said that he could
24 -- he's familiar with it and obviously, he's speaking

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1 Q Like, can you give me an example of
2 something that would be used on two different
3 companies, two different subsidiaries.

4 A Let's say that the purchasing
5 department can buy all the Pic Pencils at a cheaper
6 rate by buying more pencils. And one of the pencils
7 goes to the Production company and one of the pencils
8 goes to the EQT Energy, and each of those pencils is
9 \$5, EQT Corporation will credit cash for \$10, that's
10 to pay the bill, and it will debit accounts receivable
11 \$5 for EQT Pipeline and it will debit \$5 for EQT
12 Energy, and when it debits those two accounts on the
13 ledgers of EQT Production and EQT Energy, it will
14 credit accounts payable for \$5 on each of those
15 companies.

16 Q I see, okay. So then under liquids,
17 as you mentioned 874,000 shows up there again, right?

18 A Right.

19 Q And then it's got an October estimate
20 and October actuals and what is October estimate of?
21 What is this estimate it is talking about here?

22 A I'm not sure.

23 Q Okay. Does MarkWest have a facility
24 at Saturn?

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1 to it, but she will also be available to talk about
2 it, so ...

3 MR. MASTERS: Well, let me -- I mean, I've
4 been passed along and it's -- I mean, there's a lot of
5 information and let me see what I can -- let's see
6 what I can understand in this since we're on it.

7 BY MR. MASTERS:

8 Q There's a schedule of adjustments,
9 which we just went over.

10 A Right.

11 Q And one of them is the MarkWest
12 volume. Then if you go down to below that there is an
13 "auto inter" something.

14 A Yes.

15 Q What is that?

16 A That is because these -- all of the
17 various company's ledgers are on the same system, some
18 charges can be automatically billed to another
19 company, so for instance, if EQT Corporation buys
20 something that half of it is for EQT Production and
21 half of it's for EQT Energy and none of it's for EQT
22 Resources, when it pays that bill, it can
23 automatically charge the appropriate company through
24 an inter-company automated system.

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1 A I think that Saturn is just a
2 gathering system and a compressing station that moves
3 gas up to the Mobley plant. I don't think at this
4 point there is a processing facility there.

5 Q I take it some of these where there's
6 a debit that would be charged back to -- would this be
7 back to EQT Energy's account?

8 A Well, the positives on here are cash
9 that's leaving EQT Energy and going to EQT Production.
10 The negatives on here are reductions in the cash
11 necessary to true up the accounts between the two
12 companies.

13 Q Between Energy and Production?

14 A Right.

15 Q Now under the liquids column where it
16 has October estimate, do you know what the October
17 estimate is? Was that -- is that an estimate of the
18 amount of money that MarkWest would be required to pay
19 to Energy or to Production?

20 A Well, MarkWest doesn't pay Production
21 anything, so it's not that.

22 Q Do you know what it is? I thought
23 you said did, right?

24 A Do not.

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1 Q But anyway, you go over to the last
2 to the second page of this exhibit, there's -- at the
3 very top November estimate, November Mobley estimate,
4 November Saturn estimate and zero out Mobley, right?
5 A Yes.
6 Q And then it's got a \$4,109,000 amount
7 of money.
8 A Yes.
9 Q Now, does that mean that Production
10 receives 4,100,000-plus dollars or --
11 A Yes.
12 Q And then below that, it has ESM to
13 EPC. What does that stand for?
14 A Well, yes, EQT Energy has -- is
15 really broken down into two groups, ESM and EE, EQT
16 Energy. And ESM segment or division of that company
17 is referred to here and its ledger is included in the
18 segment reporting for the consolidated financials as
19 Production, so that is just a piece of EQT Energy.
20 Q ESM is?
21 A ESM.
22 Q What does it stand for?
23 A EQT's supply --
24 Q Management or do you remember?

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1 been a -- I don't remember for sure. There's a Blue
2 Grass Pipeline or Blue Grass Gathering system, but
3 it's a very small organization. And EQT Energy,
4 apparently, owes them \$188,597. Do you see it on
5 there?
6 Q I did see it. I'm not sure where
7 it's at now, which one it is. They're several
8 versions and some over here.
9 This is a July 1st, 2014. If you
10 look up in there on the sort of up in the left-hand
11 side. Not at the corner, but the left-hand side, I
12 think. Or maybe it's the right-hand side -- yeah.
13 A Right-hand side. Yes, so that's a --
14 is that magenta?
15 Q Don't ask me.
16 A That's a Production operating entity.
17 As I said, when you see those, do you still how those
18 three are dark red. He's just showing you that that's
19 -- that person is showing you that those three are
20 items that in the consolidated financials, the
21 business segment that is -- Production will have those
22 three companies in. Although again, ET Bluegrass is a
23 very small operation. It's small enough that I just
24 can't remember --

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1 A I don't remember.
2 Q One guess is as good as another right
3 now.
4 A I don't remember.
5 Q That is EQT Energy sub or sister
6 company or something?
7 A Yeah, it's not a legal entity, it's
8 just -- their set of books is carved into two sets of
9 books that go together to form EQT Energy.
10 Q But the \$94,916,000 plus is what
11 would be owed to the Production company for November
12 by EQT Energy, correct?
13 A The 94,916?
14 Q Yeah.
15 A Yes.
16 Q And then there's further true ups
17 down here. One is ESM to ET Blue Grass. And what is
18 ET Blue Grass?
19 A That's another company in the -- a
20 small company in the consolidated group.
21 Q I saw on it there. Do you want to
22 see that?
23 A Well, I don't need to see it. It's a
24 small company, I believe that it's -- there may have

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1 Q Why don't you -- if it's that
2 unimportant why don't you just give it to me.
3 A Or it's important enough to pay the
4 bills back and forth.
5 Q All right, so then the next one is EE
6 to ET Bluegrass
7 A Yes. As I explained that EQT Energy
8 has two divisions and what this is saying is that both
9 of those two divisions have some business with ET
10 Bluegrass.
11 Q So for the record here, at the end,
12 as you said, as we go through all this massive
13 transactions, which is what all these items I think
14 are records of, and you get down to the end, you end
15 up with about 121 million-plus dollars and then you
16 adjust that based upon these separate transactions on
17 page 7-A, correct?
18 A Yes.
19 Q And then you end up with a -- what
20 would you call it, the net amount owed to Production?
21 A Net, yes.
22 Q And that net owed to Production would
23 be the amount of -- for the gas sales for that
24 particular month from Production to Energy after these

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1 true ups and deductions and so forth here, correct?
2 A No.
3 Q All right. What is it then?
4 A Well, the gas sales is at 121,076 and
5 the 492,308 --
6 Q Okay.
7 A The gathering charges are down below
8 that and they're not part of the gas sales. They are
9 gathering charges.
10 Q Maybe I misunderstood. Maybe you
11 misunderstood me or maybe I'm still misunderstanding
12 you. Let me just ask a question: is the gas sales
13 represented on this particular page, 7-A, as being
14 approximately \$121 million?
15 A Yes.
16 Q That \$121 million is not what was
17 paid to Energy or credited from Energy to Production,
18 correct?
19 A For cash, right.
20 Q And what ultimately took place was
21 that after that all of these other transactions, as
22 set forth in Deposition Exhibit 7, which is just an
23 example of some of the sheets.
24 A Okay.

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1 Q After all of these transactions set
2 forth in Exhibit 7 for the month of November, you end
3 up with \$121 million, then you do these other
4 adjustments below there --
5 A Yes.
6 Q -- for determining what other
7 adjustments need to be made to the 121 million, which
8 includes deductions for gathering and stuff, right?
9 A Yes.
10 Q So -- I'm sorry.
11 A Well, I apologize. What I thought
12 was the confusion between what you were asking me and
13 how I was answering was that that's really getting you
14 a net cash number, and there are things in here that
15 aren't considered -- if you were to look at the
16 Production company's financials for that month, they
17 would not show as gas sales.
18 So for instance, if you were to look
19 at the Production company's books, there would be a
20 gathering charge for 30-some million dollars, but
21 there would be sales of \$121 million and the inter-
22 company would go to a variety of accounts. So that's
23 why I said the 94,916 is not the sales; that is
24 settled in cash. They're different concepts.

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1 Q Okay. So the 121 then would be the -
2 - see, I'm confused. The sales price for November,
3 this particular November, would be 121 million-plus or
4 94 million-plus?
5 A A 121 million-plus.
6 Q And that represents --
7 A What are we talking about here? Now
8 I'm confused. Let me step back for a second. EQT is
9 getting -- I've taken you down a bad path here. No
10 wonder you're confused.
11 Let's start again here. EQT
12 Production's set of books is going to have 121,786 as
13 -- that is going to be the total sales before reducing
14 them for gathering charges, and that's the answer.
15 And where I was twisted up is when I
16 look at the amounts that are flowing to the royalty
17 statements, the 121 is the number that is going to
18 show as the net sales, not the \$94 million. And
19 that's why I was -- I guess I was asking -- answering
20 a question you weren't asking.
21 Q Oh, okay. Well, I'm glad I have got
22 one more person to ask some questions.
23 A Well, let me try one more --
24 Q No, I think -- yeah, go ahead, I want

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1 you to tell me all you know about it.
2 A Well, the reason I got this twisted
3 up for you is that I wanted to make it clear to you
4 that what this is showing is that EQT Energy sold the
5 gas for 121, actually 122 million-plus, and it was
6 charged \$31 million for gathering charges.
7 That's a number that is the full cost
8 of service for the gathering. And that includes the
9 return and all those things. So the number that shows
10 up on here as the 94 has nothing to do with the
11 royalty remittance advices and the numbers that show
12 up on there.
13 Q Okay. So what would the database for
14 ledgers show for the royalty owners then?
15 A Well, what would happen is -- and
16 again, I apologize for getting this --
17 Q That's all right.
18 A -- terminology twisted up for you,
19 but what would happen here is that these meters that
20 are listed here to this total and these volumes would
21 be fed back into Enertia, and then Enertia would
22 allocate these volumes and the net price that shows up
23 in here as to the various wells.
24 So when we talked about the

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1 allocation and the blended rates, that \$122 million
2 would be the number that's blended and sent back to
3 the individual meters that supported -- by the meters
4 that supported that sale to the production meters.

5 And then the \$30 million that shows
6 up in here has nothing to do with the royalty payments
7 to anyone. That's done on an individual lease basis
8 and you know, we've talked about that a lot.

9 MR. MASTERS: Okay. She's got to change
10 tapes and this is a good time to take a bathroom
11 break.

12 (WHEREUPON, a recess was
13 taken, after which the following
14 proceedings were had.)

15 MR. MASTERS: We're sort of heading down
16 towards the end of this discovery time period we've
17 got left and there was some things that Mr. Bergonzi
18 did not know details of and things that I think are
19 important. I just want to say that I have no other
20 questions for you right now, but I may want to and ask
21 for some additional information about some of these
22 subject matters.

23 MR. WEST: Okay, yeah, we can do that.

24 MR. MASTERS: Subject to that, I don't have

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1 companies that would have been referred to as
2 Midstream Operations?

3 A Right.

4 Q Is it based upon your discussions
5 that you've had in working as a consultant, do you
6 have a belief whether that's still the case, that
7 those references may still be made?

8 A It is, and as matter of fact, today
9 and yesterday have been somewhat confusing because the
10 name of the limited partnership is EQT Midstream
11 Partners, but that's normally referred to within EQT
12 as EQM, which EQM is its stock trading symbol. So
13 almost always when you hear somebody talk about EQT
14 Midstream, they're not talking about that partnership,
15 they're talking about any operations between the
16 wellhead and the city gate.

17 Q During some of the questions that Mr.
18 Masters asked you, he asked you about the gathering
19 rates that were charged by EQT Gathering to EQT Energy
20 and how those were set. Do you recall that --

21 A Yes.

22 Q -- discussion?

23 A Yes.

24 Q Does EQT Gathering have customers

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1 any further questions.

2 MR. WEST: All right. If you come up with
3 those, we're glad to talk about it and see how we can
4 resolve that.

5 EXAMINATION

6 BY MR. WEST:

7 Q I have just a few questions and want
8 to go over some things that you addressed here in the
9 course of your deposition, Mr. Bergonzi. One is
10 within the industry, is there a kind of common
11 parlance that's used to describe different segments of
12 the industry or different operational areas of the
13 industry?

14 A Yes. Typically, the production piece
15 is called the downstream. The end of the pipeline is
16 called the upstream and everything in between is
17 called the midstream.

18 Q Okay. And when you were at EQT, were
19 those labels sometimes used in addressing different
20 parts of the industry?

21 A Yes. Again, most of the assets
22 between the wellhead and the city gate were termed as
23 midstream activities.

24 Q So there could be any number of

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1 other than EQT Energy?

2 A It does.

3 Q And do you know whether they engage
4 in negotiations with other entities for whom they
5 transport natural gas?

6 A They do and they would be similar to
7 how the interaction occurs between EQT Production and
8 EQT Energy and EQT Gathering in the planning process.

9 Q Okay. Now, during the course of the
10 questions that you were being asked about how those
11 gathering rates are set, there was an example and I
12 may have misunderstood, but just try to clarify this
13 at least in my mind, there was an example given of
14 some EQT employee working on a pipeline project where
15 there was a pipeline being constructed, and as far as
16 their time being allocated back, would that be an
17 expense that's allocated back to as part of setting
18 the gathering rates?

19 A Setting the gathering rates? Well,
20 typically, if an employee is assigned to a
21 construction project, they'll charge their time to
22 that project and it won't be an expense for that
23 period.

24 Q And is that because that's a capital

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1 expenditure?
2 A Yes.
3 Q And those capital expenditures are
4 not rolled back into the gathering rates?
5 A Right.
6 Q You were asked --
7 A The gathering rates that normally are
8 applicable to the royalty owner.
9 Q Okay. You were asked a question with
10 regard to compression facilities. We were asked a
11 number of questions about compression facilities, but
12 the one thing I wanted to just zero in on, with regard
13 to a compression facility, are there usually any
14 byproducts that are extracted from that natural gas
15 during the compression process?
16 A Well, if there are, they are not
17 based byproducts as much as they're waste and they'll
18 be -- there's no value to them other than there's a
19 cost to disposing of them.
20 Q And then finally, I guess I've got
21 two last questions or maybe two series of questions.
22 And if we could look maybe at Exhibit 26, if it's
23 still over there? Well, this is a copy of it.
24 And just using this particular

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1 remittance statement as an example, but to identify
2 it, is this for the Kay Company?
3 A Yes.
4 Q And there is a column on this
5 remittance statement that's labeled "Gross
6 Deducts/Owner Deducts." Do you see that?
7 A Yes.
8 Q Could you explain what that is and
9 how that relates to the amount that's paid the royalty
10 owner?
11 A Yes, and let me say that these
12 statements can be a little confusing and causes the
13 terminology that gets bandied around to be confusing
14 sometimes.
15 Because I think this is somewhat of
16 an effort to be transparent, EQT Production sells its
17 gas at the wellhead to EQT Energy, and so the price
18 that the lessor receives is really the proceeds from
19 the sale without any deductions.
20 But in an effort to be transparent
21 and to show what is going on in these transactions,
22 what you see is the net sales number from the -- from
23 the sales at the first liquid trading point, minus the
24 cost to get it to that point and, of course, they're

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1 labeled as deducts. So these are really not --
2 they're not deducts in the context of EQT Production's
3 transaction, but they are deductions to get back to
4 the wellhead pricing.
5 Q And so they're part of the pricing
6 mechanism for the wellhead sale between EQT Production
7 and EQT Energy?
8 A Yes.
9 Q Now, in a situation where you had a
10 lease, where EQT Production had a lease with a lessor
11 that prohibited deductions, would they -- would it be
12 reflected differently than this?
13 A Yes. The deductions -- in many
14 cases, the deductions would be zero and not charged to
15 the royalty owner.
16 Q But would EQT Production still be
17 paying or -- excuse me, EQT Energy still paying the
18 full price to EQT Production?
19 A Well, it would still pay the full
20 price and it would still deduct the full cost of
21 service deduction rate.
22 Q But the royalty owner wouldn't be
23 charged?
24 A The royalty owner wouldn't be

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1 charged.
2 Q Okay. Looking at, I guess, going to
3 the third page of Exhibit 26, there's a column that
4 says, "Gross Taxes/ Owner Taxes" and you had responded
5 to some questions from Mr. Masters with regard to what
6 you thought was typically done in West Virginia.
7 Have you thought -- had an
8 opportunity to think about a little more and would you
9 like to clarify your answer on that?
10 A Yes. I was confused.
11 MR. MASTERS: I'm going to object to the
12 form. I'm not sure what the question is, but --
13 MR. WEST: I can be very direct if I just
14 try not to lead, so ...
15 MR. MASTERS: That's all right. I was
16 confused, but go ahead, I'll figure it out. I'll just
17 object to the form.
18 THE WITNESS: I made a mistake. The
19 severance taxes on a well are typically charged unless
20 the lease specifically prohibits it.
21 BY MR. WEST:
22 Q And I believe you -- I guess you had
23 stated the converse of that earlier.
24 A I did. I was going --

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1 MR. MASTERS: I understand. I just didn't
2 understand the question.
3 MR. WEST: That's all I have.
4 REEXAMINATION
5 BY MR. MASTERS:
6 Q All right, you know, you indicated
7 that you had consulted for and on behalf of EQT,
8 correct?
9 A Yes.
10 Q And are you presently being paid for
11 your time in consulting?
12 A Yes.
13 Q And can you tell us how much you
14 charge per hour?
15 A Yes, I charged them \$150 an hour.
16 Q Okay. And are you on some kind of
17 minimum amount or can you give me an average amount of
18 hours if you're called into court? Whatever --
19 A I do not have a minimum or a maximum.
20 I've done this on an as-needed basis. Again, as I
21 told you earlier, I did participate in some royalty
22 issues earlier, and so I had some familiarity with
23 this when Rick Crites died, that left a hole in people
24 with the expertise in the history of the royalty

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1 process, and so I've done it on an as-needed basis and
2 it's not a lot of hours. I would guess that I spent
3 maybe 20 or 30 hours on this particular project.
4 Q Okay. Going back to Exhibit 26, that
5 you were asked about there, I want to make sure I
6 understand at this point what these numbers represent.
7 If you start over here on the left-
8 hand side of it, and you can't see all the numbers.
9 It says, "Production Date", and then as I -- I guess
10 that's a well number up there --
11 A Yes.
12 Q -- in the production date underneath
13 it. Is there a document somewhere that would
14 represent the wells that belong to certain leases?
15 A Well, a document or --
16 Q Database?
17 A Enertia knows which wells belong to -
18 -
19 Q Each lease.
20 A -- lease.
21 Q The second thing is the type of
22 interest and that's pretty easy. Then it's got the
23 net price. And the net price, again, I'm going to ask
24 you because I thought I understood you last time, but

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1 tell me what the net price is there.
2 A Yes, I probably made that as
3 confusing as possible, and I apologize for that, but
4 the net price is the sales price at the first liquid
5 trading point, which that's the number that shows up
6 on the top part of the wire transfer exhibit.
7 And, incidentally, this wire transfer
8 is West Virginia, Kentucky and Pennsylvania, and so
9 these aren't all West Virginia wells, but the number
10 that shows up here in this first set of columns is the
11 net price. So you'll see there's -- there can be some
12 administrative-type of deductions based on the tariff
13 or the pipeline --
14 Q Just a second, I didn't realize you
15 were going to pull out Exhibit 7. Where's 7?
16 A I was really just using it as
17 something to put my hands on.
18 Q Oh, well -- I thought you were --
19 A I'm happy for you to get it out.
20 Q Well, when you said the first line,
21 that's what --
22 A The first -- do you see this line?
23 That's a vertical line.
24 Q Column.

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1 A I'm sorry, column. But there's a
2 line drawn on here. Do you see this line?
3 Q Yes.
4 A To the left of that is the --
5 Q From this point over?
6 A Yes. That is -- ends up being the
7 net price.
8 Q Okay. From here over here or from
9 here this way?
10 A From here this way.
11 Q This is the net price?
12 A This is net price, but you don't have
13 the blend from here to take it down to the specific
14 wells that are on here.
15 Q Why?
16 A Well, Enertia does that through the
17 system math. That's what I was saying that this
18 document is used by the Production Company Revenue
19 Accounting to populate those meters so that it can be
20 blended down in the system to get that number.
21 Q Well, okay, but I guess the question
22 I have is this price right here, I thought you just
23 said was the amount -- proportion amount --
24 A Uh-huh (yes).

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1 Q -- of the sales price --
2 A Right.
3 Q -- minus the cost of service is what
4 EQT Production pays or gets paid by EQT Energy?
5 A The Production company, yes.
6 Q And this \$3.65 here is the amount
7 that represents the amount the Production company was
8 paid by Energy minus -- which would have had minus'd
9 out of it the amount of the gathering, correct, the
10 cost of service?
11 A These numbers on the top of the
12 report are the numbers that populate the net revenue
13 column. These adjustments on the bottom for gathering
14 have nothing to do with the royalty owners.
15 Q I understand that, but here's what
16 you just said. I mean -- was that this net price --
17 let me start it from another angle. I thought
18 yesterday you testified that the amount of money that
19 this net price represented --
20 A Yes.
21 Q -- was the amount of money that
22 Production was paid by Energy, less the gathering
23 charges or cost of service charges, that that's what
24 this meant?

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1 A That would be the number on the
2 right-hand column. This first column does not have
3 any gathering charges in it at all. Except for any
4 that are as calculated to wherever it's sold at.
5 Q I understand that. But like I said,
6 my understanding is that Production -- my
7 understanding was that Production would receive an
8 amount of money from Energy for the volume at the
9 sales point, minus the costs to get the gas to that
10 sales point?
11 A Okay, but that's the amount of cash
12 that the company gets. You are taking the amount of
13 cash that is received by the EQT Production and trying
14 to paste that over to the royalty owner.
15 Q No, I'm not trying to do anything.
16 A Well, I think what I hear you saying
17 is when I tell you that EQT Energy takes the net sales
18 -- the sales at the first liquid trading point,
19 deducts the cost of service for gathering and sends a
20 net amount of cash to the Production company, that is
21 a true statement. You see that on this exhibit right
22 here.
23 And what I'm saying is that's very
24 interesting, but that's not how this is calculated.

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1 Some information is taken off of this sheet to do this
2 calculation, but it isn't based on the net cash that
3 shows up on this sheet.
4 It's based on the top portion that
5 brings it to that 122 for those meters that belong to
6 West Virginia, allocated back to the individual well
7 based on a blended rate that could supply that, that
8 gives you this number that's the 365.
9 You can ignore this for any other
10 number on this sheet of paper because those are not
11 calculated based on this sheet of paper.
12 Q You mean the owner deducts is not
13 calculated based on anything there?
14 A It is not based on this. That's what
15 I was trying to explain yesterday when I said Joe
16 Piccirilli calculates a full rate of cost of service,
17 which he charges to the Production company, and within
18 that full cost of service rate are some numbers that
19 are typically used in cases where we believe that
20 we're entitled to take deductions, and that was that
21 rate sheet you worked me through this morning for
22 Brenton and Weston. And that is the sheet that's used
23 to calculate the deductions in most cases on these
24 leases, unless there's other language in the lease.

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1 That's what I've been trying to say
2 for two days. And I apologize if I'm not making it
3 clear to you. I'm happy to --
4 Q The first day I asked you about this
5 first column as to what the net price was and net
6 price you said was the amount less the cost of
7 service.
8 A I don't think that that's what I
9 said. This net price is the net price at the first
10 liquid trading point.
11 Otherwise, this sheet of paper
12 wouldn't make any sense because that would have been
13 deducting a number twice. That doesn't happen.
14 Q Well, and by the way, when you say
15 first liquid trading point, you're talking about the
16 interstate pipeline -- that's what you're talking
17 about?
18 A Right, that index price, yeah.
19 Q And in West Virginia, that is the
20 point at which gas is prepared to be sold and that's
21 where it's sold, right? That's where the market is?
22 A I didn't say that.
23 MR. MASTERS: Okay. That's all the
24 questions I have.

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1 MR. WEST: No further questions.
2 (Witness stands aside)
3 (WHEREUPON, the deposition
4 concluded at 2:15 p.m.)

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I have read the foregoing transcript, pages 4 through 285, inclusive, which contains a correct transcript of answers made by me to the questions therein recorded, or as amended in the attached list of corrections.

Date _____ John Bergonzi
STATE OF _____,
COUNTY OF _____, to wit:
Taken, subscribed and sworn to before
me this _____ day of _____, 2015.
My commission expires
_____.

Notary Public

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ERRATA SHEET INSTRUCTIONS

1. DO NOT MARK IN THE TRANSCRIPT. USE THE ATTACHED PAGE MARKED ERRATA SHEET TO NOTE ANY CHANGES IN YOUR DEPOSITION.
2. PLEASE DO NOT CORRECT ANYTHING BUT YOUR ANSWERS. DO NOT CORRECT QUESTIONS OR ATTORNEYS' STATEMENTS.
3. PLEASE RETURN TO THE COURT REPORTER THE ATTACHED SIGNATURE PAGE (NOTARIZED) AND ERRATA SHEET WITHIN 30 DAYS FROM RECEIPT OF THE TRANSCRIPT.
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Leggett, et al., v. EQT
Deposition of: John Bergonzi
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E R R A T A S H E E T

The following changes and/or corrections are suggested for the deposition of JOHN BERGONZI, taken on August 17 & 18, 2015, by Shelia Miller, CCR.

Page No.	Line No.	Reference	Correction
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IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF WEST VIRGINIA
AT CLARKSBURG

STATE OF WEST VIRGINIA,
COUNTY OF KANAWHA, to wit:

I, Shelia Miller, Certified Court Reporter, duly certified by the West Virginia Supreme Court of Appeals, and Notary Public in and for the State of West Virginia, duly commissioned and qualified, do hereby certify that the foregoing deposition of JOHN BERGONZI was duly taken by me and before me at the time and place and for the purpose specified in the caption hereof.

I further certify that the said deponent was first duly sworn and placed under oath by me on the record; that the said deposition was written out in full and transcribed into the English language under my supervision; and that this deposition is a true record of the testimony given by the deponent.

I further certify that the deponent requested to read and sign the deposition testimony and an errata sheet and signature page are hereby included in this deposition transcript.

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I further certify that I am neither attorney or counsel for, nor related to or employed by, any of the parties, or a relative or employee of the attorney, or a relative or employee or attorney of one who has a financial interest in the outcome of the case, nor has a contractual relationship with a party litigant to provide reporting services, or who otherwise is financially interested in the action.

Given under my hand this _____ day
of August, 2015.

My commission expires December 22,
2021.

Seal

Certified Court Reporter
Notary in and for
State of West Virginia